The European Union’s Non-state Actors and Local Authorities in Development Programme, Coordination, Cooperation and Networking Activities Among European Organisations

DEVELOPING OPEN, RULE-BASED, PREDICTABLE, NON-DISCRIMINATORY TRADE RELATIONS WITH PRIORITY ODA RECIPIENTS

This project is funded by the European Union

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List of Abbreviations

BDA ....Bilateral Official Development Assistance (Bilateral Aid)
CEFTA ....Central European Free Trade Agreement
CIS ....Commonwealth of Independent States
CSO ....Civil Society Organisation
DAC ....Development Assistance Committee
DCFTA ....Deep and Comprehensive Free Trade Area
DTC ....Developing and Transition Countries
EaP ....Eastern Partnership
EFTA ....European Free Trade Association
EDF ....European Development Fund
ENP......................Eastern Neighbourhood Policy
EU ....European Union
FDI ....Foreign Direct Investments
GNI ....Gross National Income
GSP......................Generalised Scheme of Preferences
LDC ....Least Developed Countries
MDGs ....Millennium Development Goals
MFA.....................Ministry of Foreign Affairs
NGDO.................Non-Governmental Development Organisation
ODA ....Official Development Assistance
OECD ....Organisation for Economic Co-operation and Development
PCD ....Policy Coherence for Development
SMEs ....Small and Medium-sized Enterprises
UNDP..................United Nations Development Programme
UNFPA ....United Nations Population Fund
UNHCR...............UN Refugee Agency
WTO....................World Trade Organization

INTRODUCTION

Development assistance

The United Nations Millennium Declaration[1] (adopted in 2000) has formulated the Millennium Development Goals (MDG). By concurring with the Declaration, countries commit to put their best endeavour in the global strive to reduce poverty, improve healthcare, and promote peace, human rights and sustainable environment. Securing resources to MDG implementation has been identified as one of the main international development cooperation issues. Being closely related to MDG, development assistance aims to ensure necessary resources from both governments and agencies in support of economic, social, and political development, and environmental protection in developing countries.

EU has been a leading partner in development assistance, with the development policy being one of the numerous Community policies. At the same time, this policy is a component of the overall foreign policy of both the Community and member states, thus making it different from any other Community policy regulating issues of internal nature. The current crisis has forced EU to not just continue honouring commitments under the European Development Policy but also undertake additional measures in response to crisis implications, also in the long run. To that end, development priorities have been reshaped and some urgent assistance has been delivered to include raising initial instalments, accelerating budget support and enhancing assistance effectiveness.[2] Some new initiatives have been introduced to help developing countries to cope with global crisis consequences. These entail: increasing size of assistance to countries covered by European Neighbourhood Policy and EU candidate countries; accelerating and improving Trade Aid initiative implementation and efficiency; increasing export credits to cover a larger business volume; and providing investment guarantees and credit lines to European Neighbouring Policy countries.

Trade aid as a component of development assistance

Regardless of some contradictory effects and imperfections in the global trade system, more attention has recently been paid to trade as an economic growth engine and a poverty reduction tool in developing countries.[3] Some countries have succeeded in taking advantage of an improved access to world markets and the expansion of global trade system (by means of multilateral negotiations within WTO). For some other

1 http://www.undp.bg/millenium_goals.php?lang=bg

2 Commission of the European Communities.Commission Staff Working Document accompanying the Communication from the Commission to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions.Supporting Developing Countries in Coping with the Crisis. Millennium Development Goals – Impact of the Financial Crisis on Developing Countries, Brussels, 8.4.2009, COM (2009) 160 final

3 EU Accountability Report 2012 on Financing for Developmenthttp://ec.europa.eu/europeaid/what/development-policies/financing_for_ development/accountability_report_2012_en.htm

countries, absence of production capacity and trade-associated infrastructure has significantly obstructed such access, indicating the need of more time to achieve it. EU Trade Aid policy regarding developing countries is aiming to secure broader market access by introducing lower import customs duty tariffs using various schemes (free trade agreements, application of a special autonomous trade regime, Generalized System of Preferences (GSP)). At the same time, a requirement to comply with international standards and apply international concepts has been brought forward. Though successful, this policy requires reshaping. The need to improve trade system and trade policy has become the frequent focus of expert and political discussions. Changes in GSP in conformity to new realities have been considered from the perspective of directing assistance to fewer countries in true need.[4]

Reshaping trade policy of donor countries and improving market access exercises a favourable but not sufficient impact to achieving stable growth in countries assisted. Along with improving trade conditions, facilitating trade regimes, resolving trade problems and enhancing trade, there is a need of reinforcing national trade policy, establishing relevant operational units and formulating successful development policies, as a component of a comprehensive and consistent economic policy. Changes in trade regime aim to invigorate investments and competition, and stimulate markets to open up to foreign direct investments so that economic development and trade capacity of such countries is boosted, and implementation of national economic policy is enforced so that stable prices and actual currency values are achieved.

Trade aid amplifies developing countries' integration to world trade system and secures more effective use of trade towards reducing poverty. Trade aid plays an important role in fortifying competitiveness of developing countries and stimulating regional integration. Trade aid priority areas identified are: improve competitiveness; build up economic infrastructure; export diversification; formulate trade policy; participate in negotiations; propose trade agreements.

More and more are the countries focusing on trade policy importance and emphasising on participation in global supply chains as a means to economic development and reduction of poverty.[5] Recipient countries expect trade aid to expand and diversify their export. That is why the trade regime applied by donor countries is of decisive importance. Adding to that development counties' participation in multilateral trade negotiations, application of trade agreements and as a whole, formulation of a comprehensive trade policy within a nationally consistence economic policy represent an essential element of national development strategies. Technical assistance is also perceived to be significant in view of introducing international standards (on hygiene, phytosanitation, labour, and environment) that will enable countries to become part of the world supply chains and improve export power. Other technical assistance areas preferred by countries entail facilitation of trade flows, reduction of trade exchange costs and increase in revenues by shortening demurrage and border-crossing costs (for transits, goods release, etc.) which result in raising trade and tax revenues.

Another aspect of trade aid refers to **developing integrated regional markets** among developing countries, which provides them with the opportunity to integrate in the global trade system more easily. EU policy has also been redirected from bilateral (preferences granted to individual countries) to multilateral cooperation (to certain regional market).

A full-value involvement of new EU member states in development assistance and trade aid delivery is a matter of knowledge and skills accumulation, long-term experience, as well as availability of donor capacity. Accumulation is a continuous and difficult process that requires political will, public attitude and readiness to act, at the background of outcomes that are hard to evaluate.

4 Focusing on needs: the EU reshapes its import scheme for developing countries, Brussels, 10 May 2011, IP/11/553

5 Aid for Trade at a Glance 2011 http://www.oecd.org/document/3/0,3746,en_2649_37413_48391299_1_1_1_37413,00.html

Survey purpose and objectives

The purpose of this survey was to draw public attention on development policy and trade importance in policy implementation by reviewing what had been done thus far, what measures had been undertaken and how they had impacted, and what obstacles had been encountered, so that project participants could join forces in taking coordinated actions to overcome such obstacles and strengthen economic and trade potential of recipient countries. As it is well known, third country trade is subject to EU Common Trade Policy and trade negotiations are entrusted to EC as the competent authority rather than to individual member states. Therefore, the project aimed to join participants' forces in finding a niche for common actions where new EU member states could interact with those recipient countries that had enjoyed long-standing trade relationships. Such an approach would allow formulating recommendations for a coordinated assistance delivery based on the identified obstacles standing in the way of development expansion.

Essentially, the analysis aimed to identify elements of development assistance and trade aid such as:

- Possibilities to reduce customs duties and diminish or remove non-tariff barriers so as to enhance competitiveness of developing countries in the long run and sustain equal representation in the global trade scheme;
- Facilitate trade by accelerating the process of duty fee charging and goods clearance;
- Build up production capacity (supply capacity) by enhancing and promoting productive investments (concluding agreements to avoid double taxation);
- Develop trade by assisting business (export insurance; assistance to introduce standards);
- Build up transport infrastructure, warehouses, communications;
- Strengthen trade capacity of recipient countries by providing consultants to support conducting negotiations, concluding agreements, and resolving trade disputes (strengthening customs offices, national standardization agencies, raising personnel qualification).

Objectives to be implemented included**:**

- Assess development assistance and trade aid policy;
- Summarize difficulties and issues in development assistance and trade aid delivery;
- Draw a picture of bilateral trade and economic relations among project partner countries with priority recipient countries;
- Review trade regimes in the context of trade relations;
- Explore partner countries' practices in resolving problems associated with bilateral trade and application of trade regimes in force;
- Harmonize policy in view of possible changes in trade regimes in order to attain higher effectiveness of trade aid delivery;
- Synchronize procedures for such changes in accordance with strategies, priorities and objectives of countries assisted.

Eventual changes in development assistance and trade aid policy, and facilitation of procedures would stimulate recipient countries' participation in international markets, and would facilitate regional integration.

COMMON CONCLUSIONS AND RECOMMENDATIONS

The development of trade relations with priority recipient ODA countries

Official development assistance framework of the countries under scrutiny

From recipients to donors

In the framework of this publication, the overall Official Development Assistance (ODA) of 9 countries of Central and Eastern Europe (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Poland, Romania, Slovakia and Slovenia) that acceded the EU in 2004 and 2007 respectively was examined.

The countries on which this report focuses all represent the post-Communist states that in the past twenty years undertook deep political, economic and social transformation. For this reason, in the transition period they were recipients rather than providers of ODA. However, the transition to the “new donors” group did not occur to them simultaneously. Some countries, such as the Czech Republic or Hungary, started the ODA activities relatively early, i.e. in mid 1990’s, this fact being linked most importantly to their accession to the OECD. Others, such as Romania or Bulgaria, remained on the recipient side until the very moment of the EU accession, i.e. 2007. To this end, the countries do not represent a homogenous group and also the track record of delivering ODA varies greatly, as will be illustrated further.

The experience of delivering development co-operation varies also in another aspect. Some countries of the group, especially the Czech Republic and Slovakia (former Czechoslovakia), Poland and Hungary, acted as development co-operation providers already during the communist period. This assistance was provided in a different context: it was aimed mainly at the brotherly developing countries such as Cuba, Vietnam, Cambodia, Mongolia, Angola etc. with communist regimes or regimes inclined thereto and the Cold War context was the main determinant of such aid. Although this development aid vanished after the fall of communism, these countries have nevertheless established certain reputation as aid providers, track record and network of contacts. This makes it somewhat easier for them to engage again in the poorest regions of the world, especially in Africa or in Asia. On the contrary, countries such as Estonia, Latvia and Slovenia, do not have extensive experience with aid provision as this policy was centralized (either at USSR or Yugoslavia level), and thus they largely had to build up the development policy from the scratch.

Difficulties in meeting the international commitments

By joining the European Union, all the countries under scrutiny undertook certain commitments in respect to the EU development co-operation framework, as enshrined in the European Consensus on Development, adopted in 2005. The fact that many of the countries were still in a transition from aid recipients to donors and in the "catching up" phase in respect to the more established EU members, the commitments for them were formulated more softly, obliging them to strive at reaching the ODA to GNI ratio of 0.17% by 2010 and 0.33% by 2015. None of the countries examined managed to meet this obligation, although some of them fare better than others with Slovenia (0.13%) and the Czech Republic (0.125%) getting closest to the target ratio in 2011. The failure to meet the commitments is usually explained by the economic downturn of 2008/2009. As a result, all the governments in the region decided to cut their development budgets exploiting the fact that they represent the least sensitive area for their electorates. This situation is again now slowly ameliorating as the economic performance improves. For instance, the Czech development co-operation strategy adopted in 2010 pledges to raise the development budget by 0.01% of GNI on a yearly basis. Still, the Czech Republic fails to stand up to this commitment.

Rising importance of multilaterally provided assistance

Another important implication of the new donor countries' accession to the EU is the fact that they had to start contributing to the EU and international (UN, World Bank) instruments of multilateral development co-operation, especially to the European Development Fund which is decoupled from the general EU budget. As the overall amount of funds for development co-operation is limited, this has largely resulted in a huge raise of the multilateral ODA proportion in the development budgets and a respective drop in the proportion of bilateral ODA. For instance, while Hungarian bilateral ODA represented 51% in 2004, its proportion in the Hungarian development budget in 2011 was mere 24%, and in 2008 even 14%. In case of some countries, contributions to multilateral ODA account for as much as 90% of the development budgets, such as in Latvia. On the contrary, the Czech Republic channels around 30% of its development budget through bilateral aid, the highest proportion from the countries examined. Slovakia, Hungary and Poland also maintain a relatively high proportion (Slovakia 25%, Hungary 24%, Poland 22%).

As much as the multilateral assistance stems from international obligations, the countries have to keep in mind that bilateral ODA leaves them with a larger room for manoeuvre in terms of where the aid is directed, thus maximizing the added value of each donor country's experience and know-how. Nevertheless, the multilateral contributions are predominant in case of all the countries of the region.

Institutional and programmatic framework still in the making

Central and Eastern European countries also had to create legal, institutional and strategic framework which would facilitate their assumption of the new donors' role and enable full participation in the development co-operation policy. One can see that the general pattern is that the countries with a longer tradition of the ODA provision usually have a better institutional and programmatic framework to deliver development co-operation and most of the instruments in place, including strategic as well as individual programmatic documents.

In all the countries examined, the Ministries of Foreign Affairs assume the major co-ordinating, strategic as well as programmatic role when it comes to development co-operation. However, the execution of development policy is often fragmented, with different line ministries or other agencies exercising important role in terms of setting priorities, approving projects as well as disbursing funds. This certainly poses huge challenges in terms of the overall coherence, co-ordination, strategy-setting and especially evaluation and monitoring of development aid. In some cases, however, steps were taken to centralize the policy-making and limit the role of line ministries, which is a practice common in long-establish donor countries. The Czech Republic has probably gone farthest in this respect, limiting the role of line ministries only to the provision of scholarships by the Ministry of Education, and representing the administration of some 15% of bilateral international development co-operation by 2013. Two of the countries examined - Czech

Republic and Slovakia - have established a special development agency charged with the implementation, monitoring and evaluation of bilateral development programmes and projects – a practice also common in more established donor countries.[1] In case of Poland, the Polish Foundation for International Development Co-operation "know-how" can be charged with rather limited tasks of implementing certain projects and initiatives relating to democracy promotion and sharing of Polish transition experience. Another similar decentralised system was also introduced in Slovenia, where the execution of some development projects can be devolved to four foundations, functioning at arm's length of the Slovenian MFA.

Central and Eastern European countries have also largely introduced multi-annual strategies and programming, which is also in line with OECD recommendations and international best practices and which should deliver greater effectiveness by clearly articulating geographical as well as thematic priorities of development co-operation. In case of Hungary, however, such comprehensive development co-operation strategy is missing, which is quite surprising given the rather long track record of Hungary as a donor country compared to most of the other countries of the region. In case of Bulgaria, the legal framework for programming is in place, but the documents are still in the process of drafting. Similarly in the case of Romania, the development strategy dating back to 2006 is considered obsolete by many stakeholders. Moreover, the Council for Development Co-operation which should enhance the coherence of development policy at a national level, was not put in place.

Geographical focus mainly on Eastern Europe and Western Balkans

The need of development policy strategy brought along also the challenge of defining which geographical areas and territories should be targeted by the development policy of Central European countries. For an absolute majority of the countries, such focus lies either in Eastern Europe (countries covered by the so-called Eastern Partnership: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine), or in Western Balkans. This is explicable by several factors: historical, as well as existing political, economic and social ties, previous experience of operating in the region or cultural and linguistic proximity which makes delivery of development assistance easier and more effective.

This, however, poses at least two challenges. The first is a risk of certain duplicity of development co-operation delivery. For instance, Moldova features as a priority country in case of all the CEE countries bar Hungary. Similar overlaps can be found in case of Ukraine, Georgia, Serbia or other Western Balkan countries. The risk of duplication becomes even more imminent taking into account that also thematic priorities of the Central European countries' ODA are largely similar, as will be explained in the next point. The question thus is whether it would make sense to somehow co-ordinate a better division of labour among the donor countries. Although the development co-operation policy framework is created at a national level and it is naturally in the recipient countries' interest to be in focus of as many donors as possible, the actual outcome can be rather adverse and perhaps more could be achieved by a better focused bilateral co-operation in fewer cases.

The second challenge stems from the fact that the recipient countries of CEE group are usually upper or lower middle income countries, not the least developed countries. The new donor countries' activities thus seem to go against the spirit of the European Consensus on Development, whereby the EU should prioritise the least developed and low-income countries and redirect aid especially to Africa. Currently a very few countries from the region provide development aid to the least developed (low income) countries, except for Poland, Hungary, Czech Republic and Slovakia,[2] with the exception of Afghanistan.[3] However, for instance in case of Hungary in 2011 as much as 37% of bilateral ODA went to Serbia which is an upper middle

1 Czech Development Agency in case of the Czech Republic (CRA), Slovak Agency for International Development Co-operation (SAMRS)

2 Ethiopia and Afghanistan are programme countries of the Czech bilateral ODA, Kenya is a recipient of Hungarian ODA, Poland has as bilateral geographical priority a bunch of low-income countries in East Africa (Ethiopia, Kenya, Somalia, Rwanda, Uganda, Tanzania, Burundi), Ethiopia, Kenya and Southern Sudan are priority countries of SlovakAid.

3 Afghanistan features as an important recipient of ODA among many of the Central European countries. However, this is largely linked to these countries' participation in international civilian missions in the country or the presence of its provincial reconstruction teams therein, which is also reported as ODA. This somewhat distorts its picture as a systematic recipient or priority of ODA.

income country. In case of Poland, by far the largest cumulative recipient of bilateral ODA in 2007-11 period was China, which also belongs among the upper middle income economies. Although it can be argued that this consideration is somewhat less important in the light of relatively small proportion of bilateral ODA in the overall development budget, it certainly represents further food for thought for the Central European countries as to possible reconsideration of their geographic priorities.

An overarching problem relating to the geographical priorities is the fact that in most of the cases they are still too broadly conceived which leaves the rather limited development funds scattered across many different countries with arguably limited impact. For instance, the Hungarian bilateral ODA was disbursed across 84 countries in 2010. Some countries have already opted for a drastic reduction of number of priority countries, which should leave to a better effectiveness of development aid. For instance, the Czech Republic reduced the number of programme countries to five (with other five the so-called project countries) and decided to phase-out the development aid to some countries.

Thematic focus on transition experience and transfer of know-how

Apart from the articulation of geographic priorities of development co-operation, the countries of Central Europe had to define, in line with OECD recommendations, also the thematic focus of their ODA maximising their expertise and added value. All of the countries surveyed agree that such special added value rests in their specific know-how and experience related to economic, political and social transition. Thus this "soft" know how such as education, capacity building, training, technical assistance etc. constitutes the core priority of their development aid. In different cases, particular aspects are accentuated, for instance in case of Estonia relating to the know-how associated with the creation of e-governance, women empowerment in case of Slovenia or post-conflict recovery in case of Bulgaria. However, some countries have identified also what can be called as "hard" thematic priorities, relating to their know-how and expertise in areas such as environment including water management and sanitation (Czech Republic, Slovenia, Bulgaria), agriculture (Hungary, Czech Republic), economic development and infrastructure (Czech Republic, Bulgaria) and others. The "hard" thematic priorities often stem from previous engagement of such activities in developing countries in the past, thus is more visible and present in case of countries which featured as development aid providers already for some time (particularly in case of the Czech Republic).

Current state of bilateral trade and applied trade regimes with ODA recipient countries

The countries of Central and Eastern Europe after their accession to the European Union generally dispose of very small leverage as to the trade regimes applied with the recipient countries. This is due to the fact that as members of the EU, they are obliged to follow the trade policy and apply trade measures that are set at the level of the European Union. The only way that the CEE countries can influence such trade regimes is thus through their membership in the EU and through the respective decision-making structures, especially the Council. In general, the EU has long acted as a champion of free trade on international scene, not least because of the fact that it constitutes the largest trading block in the world and that it views trade liberalisation as an important incentive of economic development.

Different types of trade regimes with recipient countries

The huge variety of recipient countries that are considered for the purpose of this study is also reflected in different types of trade regimes that apply to them.

For those recipient countries that are already members of the World Trade Organisation (WTO), trade is regulated mainly in the framework of this organisation whose members are also all the CEE countries. However, depending on their relation to the EU, they can – and often do – enjoy preferential trade relations that go beyond the WTO obligations in terms of mutual trade liberalisation.

Some of the recipient countries have concluded, or in a process of negotiations, of free trade deals with the European Union. Such agreements provide for free movement of merchandise without tariffs and quotas, thus practically liberalizing mutual trade on both parts. As a matter of protection of recipient countries' markets, it can be agreed that the trade will be liberalised asymmetrically, provided for a faster removal of tariffs and non-tariff barriers on part of the EU. This clause is typical for instance for the association agreements with the EU concluded with Southern EU neighbours, or in Stabilisation and Association Agreements concluded with the Balkan countries. Most of the countries of the Eastern Partnership have concluded or are in the process of adoption of Deep and Comprehensive Free Trade Agreements (DCFTA) which will provide for tariff-free and non-tariff-free access to the EU market, which could also substantially boost mutual trade of donor and recipient countries.

Those developing countries that have not concluded any free trade or similar agreements with the EU generally enjoy preferential access to the EU market through reduced tariffs (Generalised System of Preferences) or zero tariffs (GSP+ for countries that respect core human rights). In relation to the least developed countries, the so-called "Everything but Arms" regime is in place, providing for tariff and quota-free access to the EU market.

The research undertaken in the countries under scrutiny has shown that the stakeholders in most of them are generally happy with the current framework of trade relations with the recipient countries. As many of the recipient countries fall under the category of those who have already concluded, or are in the process of conclusion of free trade agreements, the trade is already liberalised and relatively little more can be achieved in terms of removal of remaining tariff and non-tariff barriers. As such, there are other important elements that can foster mutual trade, and where the recipient countries have more scope for influencing them.

Little correlation between the bilateral trade and provision of development assistance

The research has also demonstrated that there is relatively little evidence to illustrate that the provision of development assistance to a particular recipient country is somehow substantively reflected in the volumes of mutual trade.

Most of the recipient countries are relatively unimportant in the donor countries' trade structure. This is so even for the neighbouring or geographically close recipient countries, and can be explained mainly by the different structure of their economies. Most of the trade of the CEE countries takes place within the EU single market or with other developed economies. Although in many cases mutual trade indeed surged after the EU accession, this is likely to be more attributed to the good economic performance of the donor countries who increased their export capacity by attracting more FDI as well as to the generally low start-base of trade exchange with recipient countries. Also as a result of this, the mutual trade balance often plays in favour of the donor countries and exhibits large surpluses on their part. The drop in trade turnover which was in many cases encountered after 2008-09 illustrates that mutual trade with recipient countries is rather susceptible to global economic trends (economic and financial crisis) than a result of change in development policy.

One notable exception from this trend is a particular case of Afghanistan. The development assistance to this country is usually linked to the donor countries participation in the peacekeeping and post-conflict operations. The donor countries, (in our research particularly visible in case of the Czech Republic and Latvia) exported products in support of these missions (such as vehicles, various technical equipment, medicaments, food), which has distorted the trade pattern. The phasing out of the missions in Afghanistan is likely to result again in the levels of exports dropping down.

The improvement of mutual trade is also hampered by the political, economic as well as regulatory instability in the recipient countries. Import substitution schemes are also mentioned as factors discouraging business with Ukraine or Belarus in case of Latvia. Not all the Central European countries dispose with the framework of export support that would provide their companies with incentives as well as guarantees (e.g. export risk insurance) to penetrate the new markets, including the ODA recipient countries. While such system is relatively well in place in countries such as the Czech Republic or Hungary, in other countries the export support schemes are missing altogether. But even in case of these countries with elaborate export strategies or export support schemes, certain challenges prevail. For instance, in the Czech case it was acknowledged that the export support institutions dispose with a limited budget, and do not specialize in supporting export to the ODA recipient countries, leaving the missing link between trade support and development co-operation.

Other trade related activities

However, all the reports noted that not only the trade regimes themselves constitute an important factor that potentially contributes to the economic development of the target countries, but there are other related issues such as economic co-operation treaties, agreements on protection of investments or agreements on the avoidance of double taxation, foreign direct investment (FDI), technical assistance relating to the aid for trade activities etc. The trade related treaties are in many cases residues of contracts that have been concluded with the developing countries in the past, often even during the communist era, and in that respect it is doubtful whether and to what extent they contribute to the economic development, given that the donor countries have concluded such agreements with a plenitude of countries, not only the ODA recipient ones.

The foreign direct investments thus seem to represent a better opportunity for enhancing economic development in the recipient countries. The investments create jobs thus helping to elevate poverty and by creating the production capacities also generate a more diversified export base in the developing countries. However, the Central European countries are still largely capital recipients rather than investors abroad, although some notable exceptions can be discerned. Slovenia is one of the most important investors in the Western Balkan countries in various segments of the economy, and the Czech Republic features among the most important investors in Georgia, particularly in the energy sector. The Slovenian investments in the four Balkan countries: Serbia, Bosnia and Herzegovina, Macedonia and Montenegro accounted for 42% of outward Slovenian FDI in 2011. But the Slovenian case represents an exception rather than a rule. In terms of the overall level of investments originating in the CEE EU members, those directed to their ODA recipient countries are still much smaller than those directed towards the developed countries. Moreover, in all the countries examined, practically none of the investments were directed to the least developed countries but rather to the middle-income economies of Western Balkans or Eastern Europe.

It was accounted in all the reports that the investment in the recipient countries is often discouraged by the poor institutional, legal and entrepreneurial framework, unpredictable and susceptible to change and a messy tax legislation. The political instability coupled with generally high levels of corruption and nepotism is another important factor which diverts the attention of potential investors in the region. In this respect, however, the countries of Western Balkans and Eastern partnership probably provide better opportunities for Central and Eastern European investors. The EU accession process or Eastern partnership framework, including negotiating and concluding DCFTAs, makes it rather likely that such issues will be addressed and the regulatory framework of these countries will be more stable thus attracting more FDI also from Central European countries.

Aid for trade

In most of the cases, aid for trade does not constitute an important element of the Central European countries' development strategies, and is rather viewed as a top-down process due to the evolving policy at the EU level that the new donor countries now take on board. However, due to the fact that the CEE countries had to undergo a similar process of transformation into the world trade, the transfer of know-how and sharing of experience relating to the integration into international trade can represent an important added value in these countries' development policies. We can find several examples of projects or initiatives that can be classified as aid for trade, both in its narrow and wide sense: e.g. Hungary organized several round tables convening representatives of Central European Free Trade Agreement (CEFTA) and dealing with the issue of elimination of non-tariff barriers. Romania launched an initiative aiming at the establishment of chambers of commerce in the Balkan region, although this project has been put on a halt. Poland has implemented quite a few projects that fall within a narrow definition of aid for trade (i.e. concerning trade policy and regulations and trade development) between 2006 and 2009. However, since 2010, no pure aid for trade projects were supported by the Polish BDA.

The main challenges relating to aid for trade activities in case of the new member states are twofold. The first is that the aid for trade represents still an extremely small portion of the ODA budgets, which – as was already explained earlier – are anyway rather limited in case of CEE countries. But possibly even more important challenge is that of incoherence. The CEE countries often dispose with a valuable expertise which can indeed contribute to recipient countries' development of trade relations and their integration into the international trade. But the link between the development policy framework and trade is often missing. The relevant authorities often do not realise the importance of institutional and law framework building, and private sector is virtually unaware of the scheme. Thus, aid for trade is often perceived as a way of delivering of technical assistance in this particular area rather than a separate part of development policy.

Studies by Countries

BULGARIA

1. Introduction

The present analysis aims to review Bulgarian development assistance policy conducted, and outline its achievements and drawbacks. Emphasis is placed on bilateral trade with recipient countries and on the importance of trade regimes applied in view of a better market access and more efficient trade. Bilateral trade and economic relations with priority ODA countries, as well as trade regimes underlying such relations is analyzed so as to identify issues and opportunities for bringing in higher effectiveness of the support rendered to trade.

This paper is structured into four parts. The first one gives a general overview of national development assistance policy, applicable legislation, activities structure and arrangements. The second part analyzes bilateral trade with priority countries and the impact exercised by trade regimes applied. The third one addresses other activities bearing importance to economic development of countries assisted. The fourth part emphasizes challenges faced by bilateral trade and options to tackle them. Finally, some principal conclusions are drawn out from the analysis along with recommendations to improve delivery of development assistance and trade support.

1.1. National development assistance policy

Accession to EU on 1 January 2007 turned Bulgaria from an international assistance recipient country into a donor country providing support to developing countries. Within its capacity and expertise, Bulgaria undertook commitments to partake in EU development cooperation policy implementation and joint actions in third countries. Bulgaria stated its readiness to support poverty reduction by delivering official development assistance that was meant to gradually reach 0.17% GNI by 2010 and 0.33% GNI by 2015. Unfortunately, these targets were not met, the official development assistance being 0.09% GNI in the recent years.

Development assistance delivery was laid down in a set of documents. In 2007 a **Concept** of the Republic of Bulgaria participation in international development assistance[1] was drawn up, followed by a **Decree of the Council of Ministers** adopted in August 2011.[2] A **Strategy** was in the course of being drafted. The main goal was to overcome poverty and tackle problems undermining quality of life improvement in developing

1 National Concept of the Republic of Bulgaria on its policy regarding participation in international development cooperation, Decision 504 of Council of Ministers, dated 19 July 2007.

2 Decree 234 dated 1 August 2011 on the policy of Republic of Bulgaria regarding its participation in international development cooperation, published in State Gazette, No 61/ 9 August 2011.

countries. Basic principles and assistance modes as well as selection criteria for countries to be assisted were established. Priority countries and sectors to receive such assistance were identified.

Thus far, development assistance had been provided on a **multilateral basis** by means of:

- Bulgaria's participation in European Union development policy;
- Participation in universal development cooperation mechanisms operated by UN and other international organizations.

Delivery of development assistance on **regional and bilateral** basis was limited, even though it provided ample opportunities: grants in kind; financial grants; reduction of external debt burden; development programmes and projects including investments in or donation of real estate provided under such programmes and projects; provision of experts and volunteers; knowledge and expertise sharing; training on development issues and attracting public attention; support to national or international non-governmental organization operating in development area.

Bulgaria focused development cooperation in **sectors** where it held comparative advantages in assistance delivery, expertise and capacity: education and training; infrastructure building and maintenance; reforms in economic, financial, administrative, social and healthcare areas; cultural diversity and tolerance; environmental protection and promotion of sustainable development; security and post-conflict recovery.

The documents stipulate that delivery of Bulgarian development assistance is based on mid-term development assistance and humanitarian aid programmes, strategic assistance programmes for partner countries and annual schedules. **Mid-term programmes** for development assistance and humanitarian aid aim to achieve transparency and predictability as well as a balance among sectors and geographic areas. They cover a period of at least 3 years and contained: general goals of Bulgarian development policy; specific assistance areas and sectors; samples of assistance geographic distribution; amount of funds allocated by Bulgaria, by sectors and geographic areas.

Strategic programmes by partner countries are to be drawn up in line with the geographic priorities of Bulgarian development policy and with the view of securing transparency and predictability; they should contain: tasks of Bulgarian development policy; overall analysis of the situation under which assistance was to be provided; specific operational areas and expected outcomes; amount of funds allocated to respective countries by sectors.

This is the legislative background underlying Bulgarian development cooperation policy. However, there have been little actual practical actions as yet. Some new strategic and programme documents are in the process of drafting, and conditions to operate in compliance with regulatory requirements are being set.

Institutions securing development assistance. As stipulated in the documents surveyed, the Ministry of Foreign Affairs formulates and coordinates Bulgarian policy in official development assistance. The Ministry is the Management Authority regarding programmes drafting and management, as well. The Ministry's operating unit is the **International Development Cooperation Department** functioning within the UN and Development Cooperation Directorate. **An International Development Cooperation Council** is established as an advisory body to the Minister. It is in charge of drawing up mid-term programmes and annual action plans as well as promoting development cooperation policy. A **Working Group** composed of representatives of various ministries (about 30 experts) associated with development assistance delivery is established.

Priority countries. Prioritization of ODA countries was done in accordance with the principle of assistance concentration and the notions stipulated in both the Concept and the Decree. The underlying assumptions referred to the impossibility of providing assistance to all in need, and to the comparative advantages of the country regarding better understanding of local needs and specifics. Bulgaria had built development partnerships with countries meeting certain criteria, i.e. countries maintaining certain level of political, diplomatic, trade, economic and cultural relations with Bulgaria.

Based on such criteria, priority countries were defined to be those in the South-Eastern European Region and the Black Sea Basin.[3] Hence, the least developed African countries remained outside the development assistance provided by Bulgaria. The Conceptual documents intended expanding the range of priority countries in the future, on the grounds of experience gained and financial funds available. In the context of EU commitment for a 50% development assistance allocation to that continent, such an expansion was to cover some of the least developed countries in Africa.

Hardly any work was done with respect to the development assistance delivery types stipulated in the relevant documents, either on regional and bilateral basis, or on sectorial basis where the country offered some comparative advantages; so far, limited funds had been allotted only to reducing external debt burden. In 2010, some EUR 0.5 mil of Vietnam's debt was waived, so were about EUR 4.5 mil of Zambia's debt in 2011.[4]

Options set out remained unutilized because no short-term programmes were put in place, neither were funds made available to support development in priority countries in concrete areas. No specific measures to achieve objectives were undertaken, neither were indicators to assess assistance impact designed. There were no designated projects with goals, objectives, allocated funds and performance assessment criteria. All that did not allow conducting an analysis of the outcomes of official development assistance policy implementation. At such a background, the authors of the present survey made an attempt to assess the impact on countries' economic development on the basis of bilateral trade and investments as a mode of assistance to local economies.

1.2. Survey methodology

The survey was based on: statistic information about bilateral trade provided by the Ministry of Economy, Energy and Tourism (MEET); analysis of data and bilateral agreements applied; national documents associated with development assistance and trade aid (strategies, legal initiatives, ministerial decrees); focus group results, individual interviews and questionnaires of state servants, trade experts, experts at Bulgarian trade representations in countries surveyed, members of the Development Assistance Working Group, and private sector representatives operating in the countries surveyed.

As per the selection criteria for the countries to be assisted by the Republic of Bulgaria, some South-Eastern European (Serbia, Macedonia, Albania, Kosovo, Bosnia and Herzegovina) and Black Sea Basin (Moldova, Georgia, Armenia, Azerbaijan) states were included; another country of a lower than the average national income and maintaining significant trade and investment practices (Vietnam which kept traditionally good relations with Bulgaria) was also surveyed.

2. Current state of bilateral trade and applied trade regimes

In line with national policy goal and objectives, 10% of the total official development assistance amount was to be allocated to actions **associated with trade aid**. These included: provide technical assistance, strengthen export capacity, reform national institutions, enhance transport and logistic infrastructure, introduce international standards, reduce expenditures and facilitate adaptation to liberalized international trade conditions. However, Bulgaria's participation in trade aid required a donor capacity that was unaffordable to the country. That was why the survey focused on direct trade with the countries mentioned since it was considered to be also a mode of development assistance delivery.

[3] Concept regarding Bulgaria's policy on participation in international development cooperation, adopted by the Council of Ministers, http://www.government.bg / 19 July 2007; Decree 234 dated 1 August 2011 on the policy of the Republic of Bulgaria regarding its participation in international development cooperation, published in State Gazette, No 61/ 9 August 2011.

[4] As per data of the Ministry of Finance.

2.1. Trade regime analysis

Bilateral trade with ODA countries ran in line with *EU Common Trade Policy* and agreements concluded by the Community. These agreements were of crucial importance for setting open, rule-based, predictable and non-discriminatory trade relations. They aimed to secure free access to markets, reduce trade costs by eliminating duty charges, accelerate trade turnover by easing border procedures and introducing common rules and standards, and adhere to commitments taken regarding intellectual property rights, competition, public procurement, etc.

Generally, such free trade agreements tended to enhance trade between partners. Competition was enhanced, trade costs were diminished due to relieved or removed border formalities, and investments were stimulated in the region by taking advantage of the larger external market. Not all manufacturers survived under the new circumstances but the latter gave the opportunity to test the ability of the national economy to withstand competitors' pressure and prepare national producers to operate in the strongly competitive world markets.

Nonetheless, these agreements should be subject to constant review and analysis, irrespective of the free movement of goods (and in some cases – services) they secure. That would enable detecting and removing any fiscal or technical trade obstacle, and would provide for a more beneficial use of opportunities offered by coordinated trade tools and compliance with international rules to the benefit of countries involved.

Bilateral trade was supported also by *bilateral contracts and agreements* signed. Issues addressed were such as regulating relations and achieving better harmonization with requirements and procedures to secure predictable conditions and facilitate trade. Bulgaria concluded Trade and Economic Agreements with essentially all priority countries, thus supporting development of bilateral trade and economic relations. Shipment agreements (road, railway, combined, multimodal) also contributed to that end. Furthermore, agreements for customs cooperation and mutual assistance regarding collaboration in preventing, investigating and ceasing customs offences were put in place (with Serbia, Macedonia, Albania, and Armenia). With some countries (Macedonia, Georgia) agreements for cooperation in the area of standardization, metrology and conformity assessment were signed. These allowed for a more profound harmonization of production processes and trade conditions to the interest of enlarging trade turnover and supporting economic development. Cooperation agreements between respective chambers of commerce and industry were also signed (with Moldova, Albania, Bosnia and Herzegovina), thus facilitating liaison among private companies being the relevant trade entities.

A significant role in bilateral trade played the *modes of business support* applied by the government such as insurance of export to ODA recipient countries. Bulgarian goods and services, and companies investing abroad were able to take advantage of the Law on Export Insurance. Pursuant to its provisions, the government was to take on export risks associated with manufacture and export. Further to that, bank and financial institution loans and financing to small- and medium-sized enterprises, loans for pre-export financing as well as loans and financing securing country priority transactions and sectors were to be secured at the expense of the government. Exporters and investors in the Balkan countries and region were among the main customers of export credit services; about half of the credit limit was allocated to them.

2.2. Balkan countries

EU had concluded Free Trade Agreements (FTA) with the Western Balkan countries (Albania, Bosnia and Herzegovina, Macedonia, and Serbia) declared to be priority for Bulgaria. They were based on the Stability and Association Agreements (SAA) some of which covered only trading in goods (Bosnia and Herzegovina, Serbia), while others included services as well (Albania, Macedonia). A typical feature of such agreements was the application of commitment asymmetry, i.e., EU eliminated import duties and quotas once the agreements came into force, while Balkan countries eliminated only quotas and applied a duty charge schedule for gradual suspension of duties within a transition period agreed.

Existing in the Balkan region was a regional partnership based on numerous initiatives in specific fields: transport facilitation, building up a regional energy market, free trade agreements, cross-border cooperation, joint initiatives at municipal level, business associations, civil organizations, etc. At the beginning of 21st century, under the initiative of the Stability Pact for South-Eastern Europe, some 21 identical bilateral agreements for trade liberalization were concluded by the Balkan countries (including Bulgaria). The agreement formed a virtual free trade zone to cover a 55 million market. In 2006 the network of bilateral agreements was transformed into a single free trade agreement, CEFTA 2006[5] (in force since July 2007). It stipulated improving market access by reducing duty charges, eliminating or reducing non-tariff barriers, facilitating trade, accelerating movement of goods, applying common rules for antidumping, subsidies, etc.

Both bilateral and multilateral agreement played a significant role in goods and services trade expansion, and in investment influx increase. That was made possible on the grounds of commonly accepted fair, stable and predictable rules, elimination of barriers, and introduction of international standards and harmonization of national trade policy elements. Even more, thanks to the involvement and support of a number of European institutions in agreements drafting, these documents turned out to be an essential pre-accession tool for the countries in the region. They enabled developing capacity for accessing markets and take advantage of other agreements within WTO, for testing the ability of economies to sustain competitors' pressure, and for undertaking coordinated and joint actions in third countries.

After concluding free trade agreements among Balkan countries and eliminating or reducing duty charges, efforts were directed to facilitating trade and solving problems associated with releasing goods from customs and demurrage at border points, in order to improve market access. Joining the EU, Bulgaria took a commitment to ease customs procedures and improve customs services, and build the necessary transport and logistic infrastructure in order to enhance trade with Balkan countries.

Trade turnover, export, import

Geographic proximity, low transports costs, language similarities and good political relations had made Bulgaria a traditional trade partner to Balkan region countries. However, data indicated that trade turnover potential remained half-explored. Five countries (Serbia, Macedonia, Albania, Kosovo, Bosnia and Herzegovina) representing close to a 20 million market accounted for only 4% of the Bulgarian total trade turnover. For the period 2007-2011 trade with them increased merely by 7.8% at an average increase of country trade of 22.5%. Thus the five countries' share in Bulgarian trade dropped from 4.2% in 2007 to 3.7% in 2011. The reasons might be attributed to the similarities in production structure, which was projected in the nearly unchanged range of commodities traded within the period surveyed.

In principle, export is considered to be a growth engine for any country; however, under the contemporary globalized manufacturing conditions and severely extended and complicated supply chains, export and import significance in a country's development may be altered. At a time, import in a country may acquire higher importance for country's economic development than its export because it aids export directly or even lays the foundations for export. From that perspective, it is important to consider how imported production contributes to economic development, to adding value to industry and to enhancing export.

Regardless of Balkan trade relation traditions, Bulgarian export to the five countries amounted to only 7% of its total export. Within the period surveyed export showed a growth rate of slightly more than 7% at a total export increase of nearly 50%.

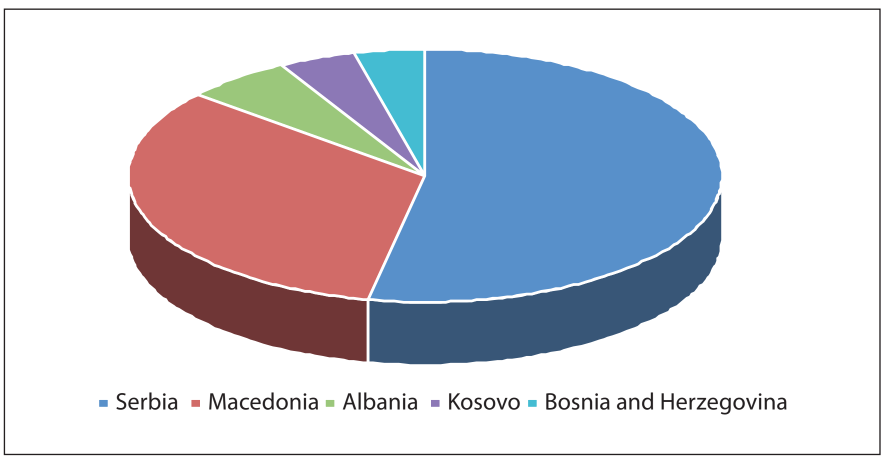
[5] CEFTA was signed in Bucharest, in December 2006 by Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Moldova, Serbia and Montenegro.

Table 1. Bulgarian export by country and in total for 2007-2011 (EUR mil)

	2007	2008	2009	2010	2011	2007-2011
Bulgaria's total export	13 367.1	14 997.0	11 514.0	15 207.1	19 869.9	74 957.0
Serbia	594.3	663.5	371.7	549.9	474.9	2654.2
Macedonia	284.6	342.6	239.2	332.4	448.2	1647.0
Albania	51.9	72.9	63.5	58.6	51.7	298.6
Kosovo	34.2	43.6	43.2	36.8	47.4	205.1
Bosnia and Herzegovina	27.2	52.6	40.3	33.3	40.9	194.4
Five countries' total	**992.2**	**1175.2**	**757.9**	**1011.0**	**1063.1**	**4999.3**

Source: MEET

Figure 1. Country share in Bulgaria's total export to the five Balkan countries for 2007-2011



Source: MEET

A clear country trend was not observed, apart from the fact that before 2009 (the crisis year for Bulgaria) export to all five countries increased substantially (on average by 18.4% in 2008 compared to 2007), though rather uneven by country: from 11.6% for Serbia to 93% for Bosnia and Herzegovina. A drop in export to all five countries was registered in 2009, rating at 35.5% compared to previous year, at a 23% overall export drop. A solid trend of recovery was not marked in the next two years: in 2011, export to Albania and Serbia dropped down compared to 2010, while a slight increase was observed for the other four countries. This fact gave an indication that no sustainable supply chains had been built, and country suppliers and customers of Bulgarian exports goods were among the most vulnerable to national and global shocks groups and could hardly be capable of offering mutual support.

The **weak bilateral trade impact** is demonstrated by relatively small share of Bulgarian export in total countries' import: from 0.5% in Bosnia and Herzegovina and 1.3% in Albania to 2.4% in Serbia. The largest Bulgarian share in country import was observed in Macedonia, being 6.5%.[6] These figures indicated that Bulgaria was incapable of either offering the required production or utilizing its potential in order to satisfy Balkan countries' market needs.

[6] Source: http://comtrade.un.org/db/mr/daCommoditiesResults.aspx?px=H3&cc=TOTAL

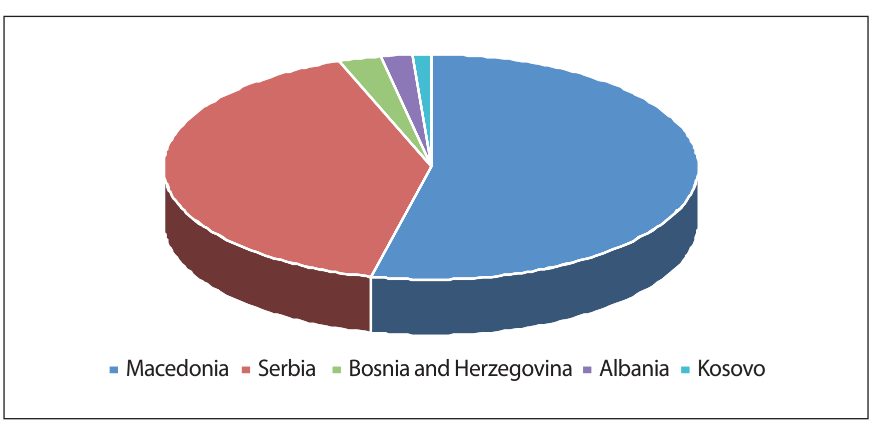
Certain similarities might be detected in the *structure of Bulgarian export* to the five Balkan countries, namely, the predominance of raw materials and low-processed goods. Despite their significance to local industry operations, such supplies could not impact substantially local economy development. Top positions in the Bulgarian export list were held by power (23% and 19% of the export to Serbia and Macedonia, respectively), petrol oils (close to 15% of export to Macedonia), ferrous and non-ferrous metals (35%, over 20% and over 10% of the export to Serbia, Macedonia and Albania, respectively). Food industry production and agriculture raw materials held an important position in essentially all five countries: from 12% of export to Macedonia up to 38% of the export to Kosovo. A typical feature of bilateral trade with the Balkan countries represented supplies of Bulgarian medicines. The share of these products varied from 3-4% for Macedonia and Serbia to 35% for Bosnia and Herzegovina. Machine and equipment was also an important trade item with a share of 14-15% (Albania, Kosovo) to 20-27% (Bosnia and Herzegovina, Macedonia).[7] Going deeper into the trade data showed that the above share accounted solely for vehicles and calculators, which would hardly contribute to local industry development improvement.

Import to Bulgaria from the five Balkan countries amounted to 2.2% of the country's total imports. For 2007-2011, the figures indicated a rise of 9.1% at a 6.5% increase of the country's total import.

Table 2. Import to Bulgaria by country and in total for 2007-2011 (EUR mil)

	2007	2008	2009	2010	2011	2007-2011
Total import to Bulgaria	21 823.7	24 977.9	16 745.7	19 135.7	23 237.6	105 920.6
Macedonia	282.5	284.2	176.8	256.6	255.1	1255.2
Serbia	173.8	182.4	144.0	201.7	253.4	955.4
Bosnia and Herzegovina	23.4	13.9	4.4	6.4	7.8	55.9
Albania	8.2	7.4	5.0	12.0	17.4	50.0
Kosovo	2.3	8.1	4.8	7.4	1.2	23.8
Five countries' total	**490.2**	**496.0**	**335.0**	**484.1**	**534.9**	**2340.3**

Figure 2. Country share in Bulgaria's total import from the five Balkan countries for 2007-2011



Source: MEET

[7] As per data of MEET

Following the widespread drop in 2009 crisis year, a gradual revitalization or even a substantial increase in import volumes was observed. Examples were Serbia (a 46% rise in 2011, compared to 2007) and Albania (by 111%). Countries like Macedonia and Kosovo indicated a rather unsteady recovery while Bosnia and Herzegovina's import figures for 2011 were only 1/3 of those in 2007. That was an indication that the Bulgarian market continued to be a sufficiently stable customer of some Balkan countries' export production, while others were attempting penetration in other markets.

As a whole, Bulgarian import share in the total export of the five countries was relatively low: from 0.2% of Bosnia and Herzegovina's total export and 1.2% of the Albania's export, to 6.9% of Macedonia's and 2.8% of Serbia's export.[8] Because of its small market, Bulgaria could hardly absorb a major portion of these countries' exports. Apart from Bulgarian market size export expansion was obstructed by production structure, which was too limited and to a great extent similar in all of those countries. That fact coupled with financial funds deficiency on the part of local companies that would allow them to invest in neighbouring countries and subsequently develop bilateral exchange using a sub-supplier mode, limited further opportunities for trade growth.

Raw materials and agriculture products predominated in Bulgaria's *import structure* from these five countries. Non-ferrous metal ores and concentrates formed the major import portion, reaching a share of 50-80% in some cases (Kosovo, Macedonia). The next important import production group consisted of metal wastes and metal items designated for recovery. Share of such products in import from Albania reached 75%, while for the other countries it was between 20 and 30%. Next were agriculture products and foods accounting for 10 to 14%.[9] The uneven import picture observed in other categories of goods indicated single transactions that could hardly have an effect on sustainability of trade and economic relations and national economies' development. It was only the import from Serbia that showed some diversity by including products of a higher processed level, such as medicines, for instance. Such a structure of import from countries targeted by Bulgaria's development assistance and trade aid policy could **hardly sustain achieving the policy goals**.

2.3. Black Sea region countries

Another group of priority countries (Armenia, Azerbaijan, Georgia, and Moldova[10]) fall among the Black Sea region countries that maintained stable trade relations with Bulgaria. Establishing the Organization for Black Sea Economic Development (OBSED) enriched and structured these relations and expanded cooperation scope (trade, banking, communications, power industry, transport, agriculture, healthcare, environmental protection, combating organized crime, etc.). Thus, a well operating market was established that opened opportunities for trade and economic support and development of the countries involved, without transforming the region into a free trade zone as yet.

EU trade with these four countries had been based on the Partnership and Cooperation Agreements (Moldova, since 1994; Armenia, Azerbaijan and Georgia, since 1999). By the power of these agreements, parties were to treat their counterparts as "the most favoured nation" with respect to import and export duty charges and fees, customs formalities, transits, warehousing and loading, modes of payment and other trade related issues. Measures for gradual cohesion of national legislations and procedures to EU acquis were also envisaged, as well as application of international practices regarding standards, technical regulations and conformity assessment. Contributing to a closer trade and economic cooperation with EU appeared to be also the involvement of these fours countries in the European Neighbourhood Policy launched in 2004. Action Plans adopted in the respective countries were intended to accelerate integration by means of gradual regulatory harmonization. The aim was to further deepen integration and enlarge trade so as to prepare for future negotiations regarding establishing a deep and comprehensive free trade

[8] Source: http://comtrade.un.org/db/mr/daCommoditiesResults.aspx?px=H3&cc=TOTAL

[9] As per data of MEET

[10] Actually, Moldova is also considered to be a Balkan region country

zone, DCFTA. The European Partnership Initiative launched in 2009 served the same purpose and aimed at accelerating integration process. Bilateral free trade zones (DCFTAs) would make the foundation element in the new Association Agreements. Furthermore, the long-term objective set out in these agreements stipulated establishing a free trade zone among partnering countries.

In order to set the free trade zone anticipated, some customs issues of mutual interest should be tackled as well: introducing common standards and efficient procedures; enforcing border control cooperation and synchronicity; strengthening customs capacity and devising mechanisms so as unregistered trade could be eliminated. The purpose of all these activities would be to establish a better operating market that would provide opportunities for trade and economic support and development of participating countries.

Negotiations with Armenia, Georgia and Moldova (all WTO members) had taken the fast track. Azerbaijan should soon complete negotiations to join WTO in order to accelerate EU negotiations regarding the free trade zone. Thus far, these countries had enjoyed the new General Preferential Scheme (GSP+) and the autonomous trade preferences negotiated which granted them extremely favourable access to EU market. For example, Moldova had been temporarily and unilaterally granted preferential customs treatment for some industrial and agricultural products that would expire at the end of 2013. All these actions supported trade, and its future intensification would depend on an even more active implementation of contractual arrangements, further coupled with analysis and offering of additional measures that would facilitate bilateral trade turnover.

Trade turnover, export, import

Despite the long-standing Bulgarian trade relations with the four BSEC countries, *trade turnover* represented merely 1.2% of the country total. Bilateral trade increased by 66% for 2007-2011 while general growth rate of Bulgaria's foreign trade was 22.5%. This fact could not be taken as an indication for a stable redirection of resources to the region. Trade with Georgia and Moldova had deeper roots and developed better, both countries being WTO members since 2000 and 2001 respectively, which made them preferred partners. Further to that, Moldova was included in the network of free trade bilateral agreements in the Balkans (Bulgaria also having such an agreement with Moldova before accession to EU).

Bulgarian export to the four countries ran in slow pace (40%), and following the 2009 crisis year it marked a substantial drop. The following two years indicated a gradual revitalization. By value (1.1 Bil Euro for five years) it represented 1.5% of Bulgaria's total export, distributed as follows: 1% for Georgia, 0.3% for Moldova, and 0.1% for Armenia and Azerbaijan, each.[11]

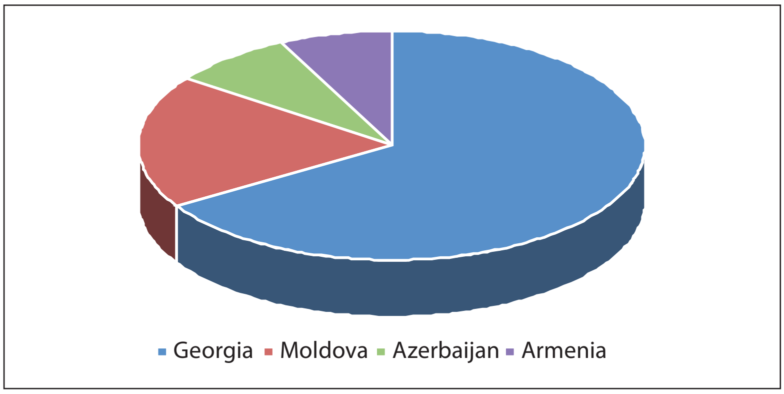
Table 3. Bulgarian export by country and in total for 2007-2011 (EUR mil)

	2007	2008	2009	2010	2011	2007-2011
Total export of Bulgaria	13 367.1	14 997.0	11 514.0	15 207.1	19 869.9	74 957.0
Georgia	163.7	131.7	95.0	144.0	229.3	763.7
Moldova	39.5	34.5	36.4	51.3	54.0	215.8
Azerbaijan	14.1	16.6	15.9	19.8	23.6	90.1
Armenia	15.2	15.8	13.6	20.2	18.9	83.7
Four countries' total	**232.5**	**198.6**	**160.9**	**235.3**	**325.8**	**1153.3**

Source: MEET

[11] As per data of MEET

Figure 3. Country share in Bulgaria's total export to the four Black Sea countries for 2007-2012



Source: MEET

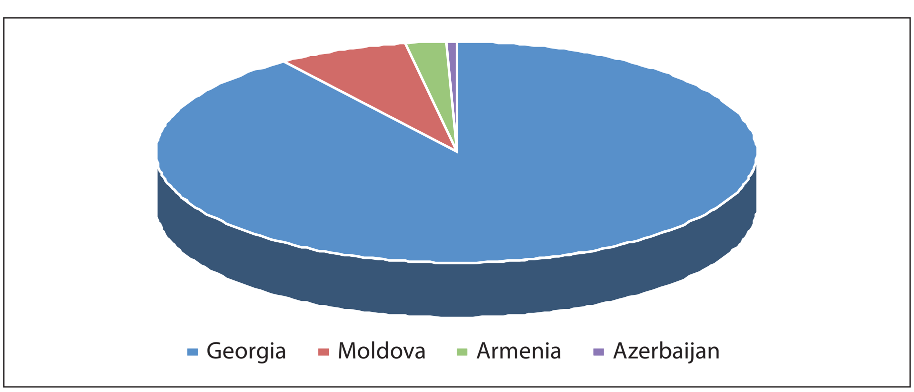
Bulgarian import from the four countries marked a high growth rate (133%) but it was on the account of the four-times increase in Georgia's export to Bulgaria, while that of Armenia and Azerbaijan dropped down to negligible volumes. It was only the import from Moldova that followed the general trend – real growth till 2009 and then a sharp drop succeeded by a relatively prompt revitalization in the next couple of years. Thus, the total import from the four countries surveyed (accumulating little more than 1 billion EUR for a five year period) remained less than 1% of Bulgaria's total import. Attention should be drawn on the fact that imports from Armenia and Azerbaijan was negligible. Under such circumstance it would be difficult to assess positively the impact exercised by bilateral trade on trade and economic development of the four ODA countries.

Table 4. Import to Bulgaria by country and in total for 2007-2011 (EUR mil)

	2007	2008	2009	2010	2011	2007-2011
Total import to Bulgaria	21 823.7	24 977.9	16 745.7	19 135.7	23 237.6	105 920.6
Georgia	55.6	333.3	189.7	164.6	195.0	938.1
Moldova	16.2	17.8	11.0	12.0	15.0	72.1
Armenia	18.2	2.5	1.1	0.3	0.4	22.5
Azerbaijan	0.4	0.9	2.9	2.3	0.2	6.7
Four countries' total	**90.4**	**354.5**	**204.7**	**179.2**	**210.6**	**1039.4**

Source: MEET

Figure 4. Country share in Bulgaria's total import from the four Black Sea countries for 2007-2012



Source: MEET

Bulgaria's participation in the respective country' export and import trade featured an even more unfavourable picture. Bulgaria's export represented 2.6% of Georgia's import and 1.3% of Moldova's; as for Armenia and Azerbaijan, the shares were well below 1%.[12] Importance of Bulgarian market to these countries' exports showed no different picture. Bulgarian market was well acknowledged by Georgia and Moldova since it consumed over 3% of Georgia's export production and 1.5% of Moldova's. Armenia and Azerbaijan indicated quite poor interest in Bulgarian market and its share in their exports was negligibly small.

Trade structure did not bring about any optimism since Bulgaria imported mainly raw materials while exporting a range of raw material and industry items for consumers rather than for the industry. Most active trade is maintained between *Georgia* and Bulgaria. Bulgarian export consisted mainly of raw materials (80% petrol oils), medicines (5-6%) and vehicles (6%). Import from Georgia comprised predominantly raw materials of the mineral product group such as raw petrol oils accounting for 25-30%, and copper ore and concentrates accounting for 55-60%. Unprocessed aluminium was also supplied. Nitrogen fertilizers were the main industrial items imported.

Half of Bulgaria's export to *Moldova* consisted of goods in three commodity groups: petrol products, medicines and plastics. About 20% accounted for agriculture goods and food products while machine and equipment (including transport devices) contributed to 13% (mainly machines for food processing industry and electrical batteries). More than half of Bulgaria's import from Moldova involved raw materials, agriculture goods and food products. Petrol products formed the main portion (annually between 20 and 30%), agriculture and food products (annually between 25 and 35%), including sun flower seeds, sun flower oil, and soy bean oil. Industrial items comprised glass packaging (10%), machines and devices (e.g., telephones) (10%), as well as sensors for liquids and gases.

Trade with *Armenia* was characterized by relatively small volumes of supplies and a negligible share in the total trade turnover of both countries. Bulgarian export ran rather unevenly but maintained an average level and a share of about 0.1% of the country's total. Export consisted mainly of relatively high-processed goods such as medicines and cosmetics, machines and transport devices, as well as other ready-made goods with a total share of 60%. Armenia's import to Bulgaria marked a sharp drop in the last two years and its share was negligible in Bulgaria's total import. The largest import was achieved in 2007 when significant amounts of copper ores were purchased. Import was limited to low-processed goods (ethyl alcohol, plastics) and transactions were single, with no expressed trend and supply sustainability.

Bilateral trade with *Azerbaijan* remained poorly developed; while Bulgaria's export marked growth of 67% for five years, at the end of the surveyed period import was merely half of the one achieved at the beginning of the period; much higher import by volume was achieved in 2008, 2009 and 2010. Nonetheless, total import from Azerbaijan remained negligibly small within that period. Transactions were sporadic; majority of transactions were single ones for certain goods category. Mineral products accounted for 95-100% of the import reported for the period; however, these transactions could not be deemed sustainable because they ceased in 2011. Predominating in Bulgarian export were higher value added processed goods such as medicines (about 35%), and machines and transport devices (up to 19%). Significant share held wood items.

As a whole, bilateral trade with Black Sea region countries showed that trade ran below its capacity level and did not satisfy participants in the process. The reasons might be attributed to: insufficient knowledge of countries' and trade entities economic capabilities; limited internal markets capacities; lack of long-term industrial relations; strive to build up supply chains with developed countries' companies so as to acquire higher competitiveness and use proven trade marks and company strategies to penetrate markets and gain a market share.

[12] Source: http://comtrade.un.org/db/mr/daCommoditiesResults.aspx?px=H3&cc=TOTAL

2.4. Vietnam

Vietnam was an example of a country receiving a concrete assistance from Bulgaria. In 2010 Bulgaria waived about 0.5 million EUR of Vietnam's debt[13] since it had been a long-standing partner country and for decades its economic recovery had been supported.

An important prerequisite for successful evolution of trade and economic relations between Bulgaria and Vietnam were the bilateral documents signed: Economic Cooperation Agreement, in force since 2008; Agreement to Avoid Double Taxation; Contract for Mutual Investment Encouragement and Protection; Contract for Tourism Cooperation, etc. Another agreement for strategic bilateral partnership was in the course of being drafted.

As an addition to those came the Agreement for Partnership and Cooperation between EU and Vietnam, singed in 2012; it was deemed to be the first step towards establishing closer relations in trade and economic relations. The trade and investment principles laid down therein would be further elaborated in the course of the Free Trade Agreement negotiations. Such an agreement would set solid grounds for intensifying bilateral relations. Another important document was the 2007-2013 EU Vietnam Country Strategy Paper. The trade activities envisaged therein provided room for Bulgaria to exercise its potential and grant development assistance to Vietnam.

Trade turnover, export, import

Bilateral trade ran in an extremely uneven mode. In 2011 *trade turnover* reached EUR 30.7 mil, which was 77% of the value for 2007 and less than half of that for 2008 (EUR 66.7 mil).[14] The main reason was that Bulgarian import was dramatically reduced while export maintained a relatively stable level of about EUR 10-11 mil in the last 4 years (with some exceptions). There was a substantial trade misbalance with a permanent negative surplus for Bulgaria because import from Vietnam exceeded export, being 5-6 times higher in some years. Nonetheless, Bulgaria's share in Vietnam's export and import remained negligibly small, 0.1%,[15] which indicated that no impact on local economic development could be sought for regarding bilateral trade.

Table 5. Trade turnover between Bulgaria and Vietnam for 2007-2011 (EUR mil)

	2007	2008	2009	2010	2011	2007-2011	Share (%)
Export to Vietnam	5.1	10.1	10.4	20.7	11.6	57.8	0.08
Import to Vietnam	34.6	56.6	36.5	28.3	19.2	175.2	0.17

Source: MEET

Unevenness was typical not solely for export/import volumes but also for *commodity structure*. The main Bulgarian export goods remained the same, being machines (textile, printing), medical devices, and pharmaceuticals accounting for over 50% of export (over 80% in some years). Metals also could be attributed to the Bulgarian commodities constantly present on the Vietnamese market (annually between EUR 1 and 2 mil). In contrast, there were some trade items that were loosing importance (agriculture produce, nitrogen fertilizers). Such Bulgarian supply structure could be defined as supportive to Vietnam economy and assisting country's development.

13 As per data of the Ministry of Finance

14 As per data of MEET

15 Source: http://comtrade.un.org/db/mr/daCommoditiesResults.aspx?px=H3&cc=TOTAL

Main import commodity items from Vietnam were coffee bean, black pepper, sea food, coal (in some years). Permanently present import items were pneumatic natural rubber tires, amounting to EUR 3-5 mil annually. In some years there were supplies of metal constructions or power generation units. These represented a substantial import share, though transactions were sporadic with no future prospects. Nonetheless, the import structure outlined corresponded to Vietnam's export capacity and could be perceived as a supportive one from the perspective of country's economic development.

As a whole, recent year trade turnover level had not reflected the potential of both countries. Food industry, pharmaceutical industry, chemical industry and agriculture might be the fields nominated to bear mutual trade interest. A new model of bilateral cooperation was in the course of being devised under which Vietnam would supply half-finished products for processing in Bulgaria and then exported to European market. To that end, Bulgaria was prepared to offer its Black Sea and Danube River ports to Vietnam as import access points to European market. For the purpose of developing economic relations with the European Union, Vietnam might also use the local industrial zones. All of that was in support of trade and building up export capacity.

In summary, it would be hard to draw conclusions about priority countries' bilateral trade importance in their economic development only on the basis of data available for a five-year period. In those years the world managed to fall into a crisis that led to shrinking external demand and internal consumption, the situation not being remedied as yet. Coupled with the impaired loan terms and conditions, industrial production dropped in literally all countries. External markets that were very much relied on for coming out of the crisis remained difficult to access due to non-revitalized demand. Under such circumstance, it was understandable why regardless of the favourable development opportunities provided by bilateral trade with priority countries, trade turnover achieved did not correspond to countries' potential.

As an EU member state and part of the single European market, Bulgaria invested large resources and efforts to set up more favourable trade conditions. These were associated with moving goods across borders: accelerating customs release process by facilitating customs procedures and services thereof; reducing cross-border fees; building an adequate transport and logistic infrastructure to reduce border cross-points demurrage and improve access to the market as a whole. All these facilitated trade and diminished company costs. As a long-term perspective it was envisaged to gain a more tangible effect of such efforts.

An essential option to increase trade turnover was to develop institutional cooperation in order to encourage contacts at company level. That would result in not only stirring trade but also diversification of trade structure. Such cooperation was gradually gaining pace by means of various cooperation agreements between national and regional business organizations and industrial associations.

A targeted approach involving private business support to penetrate priority country markets would be required in order to achieve the goals laid down in the national development policy. As evidenced, the approach relied on expertise and trade facilitation measures rather than financial aid delivery. The intention would be to assist international market access, enhance competitiveness of local exporters and enlarge and diversify national produce. At the end of the day, the result would be an accelerated economic development and poverty reduction.

Conclusions that may be drawn on the grounds of the analysis are as follows:

- bilateral trade turnover does not reflect the actual capacity of countries – goods traded satisfy a very small portion of the general needs;
- Bulgaria's accession to EU and priority countries' orientation towards integration with the Union expands significantly the bilateral relation scope;
- gradual orientation of recipient countries' national legislation to EU requirements and international trade practices with respect to standards and technical regulations facilitates bilateral relations;

- Bulgaria as well as recipient countries are well affected by the crisis, and bilateral trade has diminished at a higher rate than the average;
- bilateral relation reinforcement and trade turnover enlargement will depend on stirring joint investment activity;
- enhanced contacts at company level are required (trade and industrial associations and chamber, government institutions should encourage cooperation so as to counteract crisis implications, stimulate export and introduce modern technologies in business).

3. Other trade related activities in recipient countries

3.1. Investments

Offering solely market access would hardly be sufficient to achieve sustainable development and income increase. Another opportunity to support economic development and tackle poverty in developing countries would be **attracting investments** which would help redirect national economies from raw material supplies to manufacturing value added goods. Investments designated to gradual decrease in unprocessed commodity export to the benefit of manufacturing and exporting higher value added goods would stimulate sustainable development and income increase. To that end, donors would be required to offer a purposeful assistance and a better coordination between development policy and trade policy with an emphasis on manufacturing and export capacity development. That was why in 2010 over 90% of EU development assistance was directed to production capacity and trade infrastructure development.[16] That should be the direction followed by Bulgaria's trade development assistance, namely, to mobilize resources associated with trade capacity advancement in developing countries as a foundation of their national and regional development strategies.

Investments, being an important growth source, especially when directed to areas where a particular country already holds competitive advantages, measures to encourage them would undoubtedly be incorporated in the trade development policy. The terms and conditions of investments in third countries stipulated in the Common Trade Policy were reflected in the Stabilization and Association Agreements for the Western Balkan countries and Partnership and Cooperation Agreements with the Black Sea region countries.

Bulgaria signed mutual investment encouragement and protection agreements with literally all priority countries (with the exception of Bosnia and Herzegovina,[17] Kosovo and Azerbaijan). Commitments taken included investment protection exercised in the post-investment period. In support of the investment process some Agreements to Avoid Double Taxation and Agreements on Visa Regime Facilitation were brought about. These were concluded before Bulgaria's accession to EU but remained in force. Their validity was considered in 2010 EC Communication,[18], which stipulated that such agreements concluded prior the Communication would be enforceable to the benefit of investors security should such agreements be notified to EC, non-contradictory to EU acquis, and not in conflict with existing agreements between EU and the respective third country.

EU fostered setting up Investment Compact for South East Europe[19] to assist investment policy development and application, and improve investment climate. As the Compact member, Bulgaria would take part in all initiatives brought about by the Regional Cooperation Council. These initiatives aimed to attract foreign direct investments, improve local economy competitiveness, and promote innovations and human resources development. As a result of all these activities, the majority of Balkan countries

[16] Aid for Trade Monitoring Report 2012, European Commission

[17] Such an agreement was drafted for signing in 2009 but after Lisbon Treaty came into force, its signing was cancelled. Under Lisbon Treaty, EU policy regarding foreign direct investment is to be integrated in the Common Trade Policy, competences have been transferred to EU, and member states do not have the right to negotiate new bilateral agreements unless sanctioned by EU.

[18] European Commission document COM (2010) 343 final, 7 July 2010. http://trade.ec.europa.eu/doclib/docs/2010/july/tradoc_146307.pdf

[19] Investment Compact for South East Europe, http://www.oecd.org/investmentcompact/

adopted liberal investment laws securing equal access of domestic and foreign investors to national economies.

Improving investment climate and expanding investment opportunities by means of an effective investment facilitation mechanism and an adequate institutional framework were also among the priorities of the BSEC Trade and Economic Development Working Group. The EU Partnership and Cooperation Agreements prompted commitments for equal treatment of domestic and foreign companies and setting up equally favourable conditions for all.

Bulgarian investments in priority countries were relatively small in volume (a total of EUR 190 mil after 1997)[20] and account for about 15% of all Bulgarian foreign investments. Over 97% of them were directed to **Balkan countries**. The major portion of such investments was concentrated in two countries: Serbia (EUR 110 mil or close to 60% of investments in the Balkan countries) and Macedonia (EUR 62.4 mil or over 30%). Investments in Albania (EUR 9.9 mil) and Bosnia and Herzegovina (EUR 0.7 mil) were insignificant which meant that no impact was exercised on local economies.

Bulgarian investors participated in privatization of local enterprises, in joint companies and in building new industrial facilities. In Serbia[21] and Macedonia, the country ranked among the largest foreign investors by number of investments. More than fifty companies with Bulgarian or mixed capital operated in Serbia and had more than 20 representation offices. Even though Bulgaria held a high position by number of companies participating in privatization, the latest data had indicated that more and more Bulgarian investors were failing to comply with their contractual obligations and many contracts were terminated. The reasons comprised lack of experience, instability of company structure, and no capital and managerial potential.

Main investment areas were: manufacture (metallurgy, food industry, medicines, and tires), power industry (construction of photovoltaic power plants), finance (banking and insurance), geological exploration, security services, information and communication technologies, tourism, trade, construction. Projects on construction and rehabilitation of road, railroad and energy infrastructure in neighbouring countries were implemented by joint companies and partnerships between Bulgarian and local enterprises.

Essentially, these were private investments, since large state enterprises did not invest abroad. Investment activity of private Bulgarian companies in neighbouring countries was a result of the internal market limitations and not of an existence of extra capital. Companies gaining certain market share in the Bulgarian market felt compelled to move towards know-how export abroad. Most active proved to be Bulgarian investors in the financial area who participated in privatization and acquired part or entire banks and insurance companies. The better part of investments was done by public companies in mining industry (in Serbia). Relatively small was the number of new manufacturing facilities (e.g., a pharmaceutical plant in Serbia; a fruit juice plant in Albania amounting to EUR 6 mil). In the tourism sector hotels were acquired (in Serbia). The largest was the number of trading sites that provided jobs[22] which was deemed of crucial importance to all Balkan countries.

Government development policy did not provide mechanisms that could assist Bulgarian investor and direct them to operate in neighbouring countries, identified as development assistance priority countries. Nonetheless, private companies continued showing interest for various reasons (these countries' markets had higher development potential, competition on the part of large international companies was still bearable and even not very strong Bulgarian companies might position themselves). However, Bulgarian companies were still young and not too strong, and did not have extensive experience in foreign investments. It was precisely because they felt weak that they exercised higher caution, experiencing the economic and legal uncertainty of conditions in these countries.

[20] As per data of BNB, http://www.bnb.bg/Statistics/StStatisticalBD/index.htm

[21] Bulgaria holds second position by number of privatized Serbian enterprises and first position by number of foreign companies.

[22] There were no reliable data about jobs opened or maintained as a result of investments made but by some estimates Bulgarian capitals secured over 10 thousand jobs in Serbia.

Crisis in Bulgarian construction business made a number of construction companies redirect operations to neighbouring countries (Kosovo, Macedonia, Albania and Serbia) where government had allocated large funds to building infrastructure, administrative centres, purification plants and water supply and sewage systems. A long-term perspective was opened to the construction business with the influx of large investments coming from prominent international donors (EU pre-accession funds, World Bank, European Investment Bank, European Bank for Reconstruction and Development). In that sense, Bulgarian business took advantage of the infrastructure development funding provided to the region by other donors, without putting its own money and without being supported by a purposeful government policy. However, in doing so Bulgarian companies assisted indirectly economic development of priority countries by virtue of offering relatively low prices (hence, securing efficient use of funds granted) and large employment of local sub-contractors and work force (hence, creating jobs).

Investment cooperation with **BSEC countries** ran in a very poor mode; opportunities were assessed, and plans were contemplated but no essential operations took place. All countries possessed enormous investment potential that remained unused. In Moldova, investment process had been just given a start (about 100 thousand euro) with Bulgarian companies investing in wine production and meat and milk processing. Georgia was open to foreign investments and with gradually improving economic environment and liberal business regulation it began attracting foreign investors. However, the conflict with Russia and world crisis obstructed foreign investment growth in the country. Bulgaria was unable to take a high position among foreign investors with its little more than EUR 2.1 mil worth of investment, hence substantial impact on national economy was hardly to be expected. The largest investments were made in Azerbaijan, amounting to EUR 3.4 mil. There were options for joint investments but Bulgarian companies had no good knowledge of the market and were rather hesitant to risk. Armenia offered good business development opportunities in areas such as machine building, electronics, food industry equipment, lifting and transportation devices, apparel, medicines, perfumery, food products production in which Bulgaria had expertise and interest but actual investments never happened.

The most productive investment cooperation would probably be the one with **Vietnam**. Bulgaria participated in the construction of various sites such as industrial enterprises, refrigeration systems, forage plants, infrastructure projects, etc. For the last 3-4 years Bulgarian private companies had invested over EUR 7 mil. Scheduled for investment were road construction projects. Key elements for future cooperation were identified to be: telecommunications, medical equipment manufacture, electronics, biotechnologies. Joint Bulgarian-Vietnamese enterprises were deemed to be a suitable approach to implementing such cooperation.

As a rule, in the last five years investments in priority countries' economies came as a result of independent business decisions which were not supported by a purposeful government policy. No actions were taken to assist private investors in priority countries. Government activity was brought down to intergovernmental meetings and declarations for cooperation. No specific development assistance programmes and projects were put in place to prompt government commitment and participation in the assistance conferred to the respective country. Intergovernmental meeting were usually dedicated to discussions on opportunities for joint investments with no specific arrangements such as nominating projects and modes of participation, and hence, no concrete outcomes were achieved. At such an investment level it would be futile to expect a substantial impact on national economies in priority countries. Undoubtedly, employment was created and local suppliers were involved but lack of information did not allow evaluating the level of impact.

Irrespective of the good preconditions for a sustainable economic interaction with ODA countries nominated as priority ones for Bulgaria, relations remained practically much frailer than anticipated. Bulgaria could not offer significant investment funding. Recipient countries felt more secure with investors coming from leading EU economies and showed preference to them rather than to those coming from a country like Bulgaria with an economic and business background closer to theirs.

Investment cooperation could be boosted by invigorating information exchange in the fields of interest, namely, investments, legislation and investment attraction and promotion. To that end, contributing to stirring interactions would be exchange of business delegations, organizing investment seminars and forums, trade and investment fairs, etc.

Bulgaria did not employ **innovative mechanisms** to development assistance financing. No programmes or project were devised to support business environment and investment climate improvement in developing countries, with which, in fact, the country enjoyed well developed trade and economic relations.

Bulgarian government did not allocate funds to finance **infrastructure investments** in ODA recipient countries. In their majority, Bulgarian companies were not sufficiently powerful in order to invest in the infrastructure (industrial, trade and transport) of priority countries. Construction companies possessed expertise and capacity to participate in tenders but in the majority of cases projects were on a large scale which made it difficult for them to bid independently. Taking the role of sub-contractors required better communication and more profound knowledge of the market.

3.2. Delivery of technical assistance to formulate and implement a national trade policy

Many of the regulatory measures (e.g., standards) imposed to trade were not a priority from the perspective of recipient countries' development. Introducing such measures required efforts and financial resources which were perceived to be more beneficial if directed to other national development policy areas. With Bulgaria's expertise potential it was feasible to deliver assistance in resolving such an issue by means of services provided to strengthen the capacity of relevant institutions (customs, standardization agencies, etc.). The country was also capable of offering assistance to tackle other similar issues such as building capacity (human resources and institutional) for formulating trade policy, drawing up trade strategies, efficient negotiations, overcoming difficulties and covering costs associated with adopting WTO rules. Thus far, however, no data had been made available regarding assistance delivered for trade system and trade policy reform in countries supported.

4. Bottlenecks and solutions

Availability of multilateral and bilateral agreements in support of trade proved to be an insufficient condition for an accelerated trade development. Priority countries' trade turnover recorded in the recent years did not correspond to the capacity and did not affect substantially these countries' development. Bulgaria had been their traditional trade partner but the absence of long-lasting industrial relations and supply chains did not allow for sustainable trade growth. Not many were the Bulgarian companies that had established solid presence in external markets and viable trade relations so as to aid their developing country partners to operate a successful business in the long run. That was why bilateral trade showed lower performance regardless of the potential available.

The ongoing economic crisis, reduced industrial demand, and shrunk internal markets would hardly give an impetus to bilateral trade acceleration and growth. Difficulties associated with non-tariff restrictions and complicated customs procedures had not been a major obstacle to expanding trade. Trade regimes applied within the Common Trade Policy as well as bilateral and multilateral agreements assisted bilateral trade by setting clear rules and predictability. A purposeful policy in support of private business would be necessary in order to find new niches and tools to stir trade and diversify trade structure. Building long-lasting industrial relations would require very good understanding of the circumstances in the respective markets, direct contacts at company level, and overcoming mistrust. Bulgarian diplomatic services could play a significant role in that respect.

Being an EU member state, Bulgaria had taken a commitment to deliver assistance to the less developed countries on annual basis; however, being a country of limited means and relatively low income, Bulgaria had found it hard to fulfil such a commitment. Problems evolved not only from obstructed funding but also from the fact that Bulgarian community, even experts, lack knowledge and understanding of the need to provide such assistance. On the other hand, Bulgaria's experience as a recipient country was deemed as an important advantage when an effective development cooperation policy was to be formulated.

4.1. Experts' opinion

Findings established by the analysis were confirmed by the **questionnaire and focus group discussions** carried out under the project.

Experts' perception of **cooperation development policy** was rather ambiguous. Some were convinced that development policy represented an integral part of the Bulgarian national economic policy, while others were not sure about that. Obviously, development assistance was not brought up as a priority in a categorical manner. Moreover, that particular aspect of government policy was not promoted well and no measures were undertaken in that respect.

Ambiguity of development assistance policy was fostered also by the fact that the policy was being formulated by various government institutions, ministries and agencies, which were required to build good partnership in order to secure efficiency; however, frequent staff replacements obstructed continuity. Development Assistance Working Group did not meet regularly, though it was intended to formulate the overall policy in that area. Development assistance political documents were put in place but strategic programmes relevant to priority recipient countries and annual implementation plans as per the programmes were not. It was made obvious that collaboration among institutions and stirring activities on development issues and trade assistance required closer interactions.

There was no unanimity regarding **financial resources** allocated to development assistance; some (MF experts) believed that financial resources reflected planned activities; others considered them to be insufficient and failing to match the objectives. There were some experts that could not judge whether the resources allocated were adequate to tasks planned. Even more unpleasant was the fact that development assistance budget was considered to be managed in a non-transparent manner. Regardless of the insufficient information and lack of clarity, some suspected that allocated resources were often misused, i.e. in a number of cases resource were redirected to cover for natural disaster implications instead of achieving development assistance objectives. A contradiction of that sort spoke of obscurity regarding allocated funds spending. Involvement of banks and agencies (e.g. Export Insurance Agency) in providing resources for development assistance purposes was also unclear because of unavailability of adequate information and transparency on the issue.

Areas perceived to be more expedient regarding development assistance delivered by Bulgaria included: education and training of experts; cultural development and tolerance; and security and post-conflict recovery. Fields such as infrastructure building and maintenance; economic, financial, administrative, social, healthcare reforms implementation in recipient countries; and environmental protection and sustainable development were deemed to be of lesser priority for Bulgaria. That looked only logical since such fields would require extensive experience and financial resources, which were unavailable to the country.

The **types of assistance** delivered by Bulgaria comprised grants in kind and external debt relief while provision of experts and volunteers, and supporting national and international organizations operating in development assistance area were exercised less. **Tools** employed in development assistance were selected depending of country's resources availability; in the majority of cases, however, no in-depth analysis of country's competitiveness advantages had been performed in advance. It was not a common practice to analyze recipient country's needs. That would present an area where activities could be enhanced and policy improved.

Overall, experts were of the view that Bulgaria's **contribution** to development assistance was small. An explanation could be associated to country's size and limited capacity. Further to that, only until recently the country had been a development assistance recipient and its donor position had been assumed not long ago. A long road would need to be walked in order to learn from the expertise of developed countries and partner with them in various projects

As far as **trade aid** was concerned, it was a common understanding that the Ministry of Economy, Energy and Tourism (MEET) had a substantial input in setting up an open, rule-based, non-discriminatory trade with developing countries. That contribution was manifested by: drafting bilateral trade agreements, participation in drafting multilateral trade agreements, participation in devising trade policies, drawing up trade rules and standards, facilitating trade, and delivering services to improve business environment. Among these activities, the most efficient were perceived to be delivery of service, improvement of business environment and facilitation of trade.

Trade regimes applied were considered favourable from the perspective of trade aid. Main issues in bilateral trade with priority countries were related to difficulties caused by non-tariff restrictions and customs procedures. Among non-tariff restrictions obstructing the most bilateral trade relations, trade office representatives identified administrative and bureaucratic barriers to launching goods on the market. Additionally, in some cases licenses were required; a temporary embargo was imposed; specific standards were in force; and foreign currency was controlled.

Opportunities for bilateral trade expansion could be sought for in areas outside the actual trade regime improvement. For instance, the development level of new financial mechanisms for mobilizing private financing in support of trade aid was deemed to be unsatisfactory (more often it was rated as rather low and occasionally average).

Experts were unanimous about the positive effect of Bulgaria's **accession to EU** with respect to trade relations and trade regimes with recipient countries. It supported enforcing open, rule-based, predictable and non-discriminatory trade relations. Compared to previous periods, an actual increase in trade turnover with these countries was marked irrespective of the fluctuations caused by the world economic crisis.

Public and institutional **knowledge** on development cooperation, trade aid and Bulgaria's role in the process was considered to be poor. Information collected from government institutions indicated that experts had some idea about the government's role in development assistance and trade aid delivery. However, experts' specialization in the topic was rather insufficient; the majority of experts perceived as assistance a very large range of activities that went beyond the scope of development assistance and trade aid.

Part of the responsibilities included in experts' job description, for instance, those of the Ministry of Economy, inscribed well in a range of specific assistance areas, namely, participation in devising development strategies; elaboration of development plans; participation in working groups, consulting. Specific development assistance and trade aid activities such as information campaigns, trainings, conferences and debates were less favoured. Unfortunately, it seamed that development assistance issues remained in the periphery of government institutions focus of attention. Efforts were concentrated on trade and economic relations with recipient countries. Government's involvement in development assistance remained limited, scarcely articulated and poorly presented to the general public.

There were no adequate mechanisms of **communication** among government institutions, competent ministries, experts and civil organizations. Communication and information exchange deficiencies were observed at all levels, among government institutions (e.g. MFA and other ministries) as well as among institutions and public organizations.[23] Important aspects such as gender equality, security for people, fairness through the transition period and other issues remained poorly articulated and could not be tracked down to operational level in the existing documents. It was expected that detailed annual development cooperation implementation plans would compensate that setback.

[23] A principal mechanism guiding civil organization participation is the NGO Platform for MDG which has been established with an international support. The Platform has established a dialog with government institutions but it remains limited in its scope and effect. The Platform needs support to improve memberships, institutional structure and role in informing the public on development cooperation.

Availability of **expert capacity** in development assistance looked rather obscure. That was a quite disturbing circumstance which made inevitable the conclusion that Bulgaria did not possess sufficient expert potential in development assistance. It was a general impression that experts knowledgeable in developments assistance were few. A large group of MEET experts working in bilateral trade and economic relations area were aware of the topic though not specializing in it. The most notable expertise in the area possessed the Ministry of Foreign Affair, being in charge of coordination of the overall development assistance operations. Other ministries and agencies associated with the topic practiced assignment of tasks rather than specialization in the area.

Being a specific area of operations, development assistance imposed the need to deepen collaboration among all stakeholders. Government institutions would be required to work in **partnership** with civil society representatives and private sector for the purposes of development assistance. Government had put some efforts in involving civil society (however, that did not apply to the private sector) in formulating development assistance policy (a civil organization representative was a member of the Development Assistance Working Group). However, such involvement was merely on information rather than participation level. That was why civil and private sectors' involvement in development assistance delivery was assessed to be less than satisfactory. However, discussions held indicated that the civil sector was prepared to have a closer collaboration with the government, and NGOs had numerous ideas to strengthen it. Institutions were also convinced that such organizations could be granted a more prominent role but in the course of operations, institutions tended to confine to themselves and avoid looking for support.

The most useful activities of civil organizations were perceived to be the following: devising survey and training materials, campaigning for promotion of development assistance, devising information materials and promotional activities. Among services and products delivered by the private sector (companies, business associations, and social partners) the most useful from development assistance perspective were perceived to be humanitarian aid and medical and educational services delivered.

Majority of government institutions having a bearing to development assistance policy formulation and implementation rarely performed an **effectiveness evaluation** of such assistance, even though experts were convinced that such evaluation was needed. Diverse measures would be required in order to evaluate assistance efficiency. It would not be about only increasing financial resources but also strengthening administrative capacity, improving coordination and enforcing better understanding of development assistance among the public. That was an indication that problems of Bulgaria development assistance referred to literally all areas of its implementation. Efforts were required regarding financial resources as well as better coordination and procedures, enhanced human resources capacity and wider promotion of the topic.

Results from questionnaires and focus groups discussions indicated that **development issues were not well known to the general public**, the topic was neither discussed, nor well promoted among citizens. Society knew little of the Millennium Development Goals, development assistance and trade aid. The most effective promotional means identified were public discussions, expert meetings, conferences, promotional aids such as video clips, etc.

Bulgaria joined in readily EU initiatives on development assistance. The country was doing its best to implement other EU member states' expertise in development assistance. That was one of the recommendations of the Development Assistance Working Group, namely, wider partnering and participation in EU member states projects in the field of development assistance. It was considered that a more comprehensive cooperation with international organizations would be required, such cooperation taking the shape of: sectorial consultations, national working groups, expert meetings; joint grant schemes; trainings, seminars; conferences and workshops.

4.2. Conclusions

The analysis indicated that Bulgaria's assistance to poor countries was an issue difficult to understand because the country itself was considered relatively poor. Crisis implications and stringent fiscal stability measures exacerbated additionally the situation. The volume of assistance delivered remained negligible and both development assistance and trade aid policy had been moved in the background because of not only insufficient financial resources but also poor awareness and understanding of the topic. An institutional mechanism that could adequately shape the national assistance delivery policy had not been put in place as yet.

Out of the questionnaire, discussions and analysis, the following **conclusions** could be made:

1. Bulgaria provides funds to support poor countries mostly in the form of participation in international funds and organizations. Assistance on bilateral basis is rather modest in size and is expressed in delivery of humanitarian aid or emergency ad hoc actions aiming to prevent or relief consequences from crises, armed conflicts, or actions against international terrorism. Waiving debt of some of the poorest countries could be included in this type of assistance.
2. In view of the Millennium Development Goals for reducing poverty, the least developed countries should hold priority in delivery of official assistance. Virtually, Bulgaria's policy is almost entirely oriented to Eastern Europe to support transition from planned to market economy.
3. Millennium Development Goals targeting poverty reduction put emphasis on establishing a more open, rule-based trade system. Data available indicate that trade aid (though declared to be an important development engine) does not hold a significant position in Bulgaria's cooperation with developing countries and financial resources allocated are insufficient.
4. Effectiveness of assistance delivered is not high and regardless of the intent stated, comprehensive programmes by country or region have not been developed, neither has participation in other donors' programmes being secured. Official documents have identified sectors for assistance delivery but no purposeful work has been performed as yet. That is why neither assistance outcomes and effectiveness nor obstacles to effective assistance implementation have been analysed. No joint actions with other EU member states have been undertaken and Bulgarian share in a particular country's assistance is unknown.
5. So far, it has been difficult to establish evidence regarding compliance with Paris Declaration on Aid Effectiveness in view of the partner country needs and economic and trade priorities. These could be strengthening country's capacity for a full-fledged involvement in international trade exchange on the grounds of WTO rules (the case of Balkans free trade agreements). Enlargement of bilateral trade evolving from assistance delivered, contributes to economic development of partners and improves their capacity to penetrate external markets.
6. Overall, Bulgarian government and society are still in their initial stage of planning and implementation of activities in the field of development assistance.

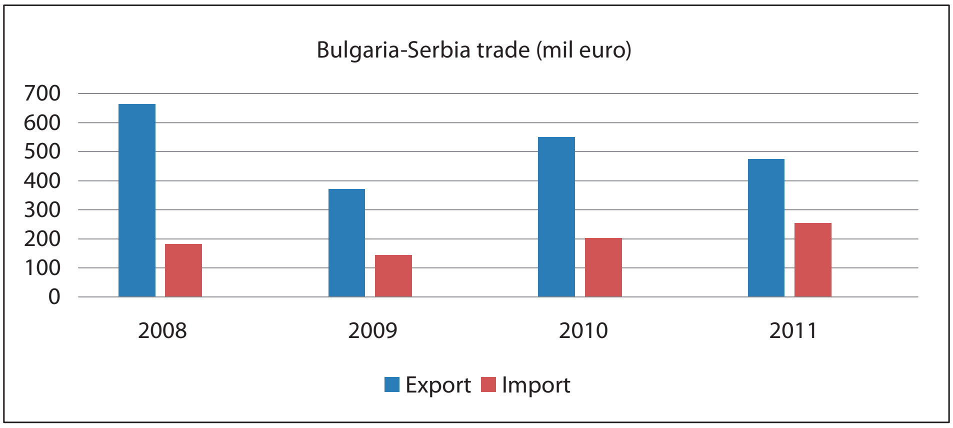
4.3. Recommendations to Bulgarian government

To improve Bulgaria's input and contributions to ODA countries, efforts should be directed towards enlarging bilateral assistance, including trade and investments. To that end it is necessary to recognize the contribution of trade and investment activities as being an integral part of development assistance, to incorporate them in a purposeful policy and devise performance indicators, and to coordinate these activities with the other EU member states. Work should continue in a much more organized and purposeful manner to encompass assisting developing countries in formulating and implementing their trade policy and participation in multilateral trade negotiations, and delivery of technical assistance in introducing international standards and trade practices. It is of crucial importance to increase public awareness and gain public support for the Bulgarian development assistance.

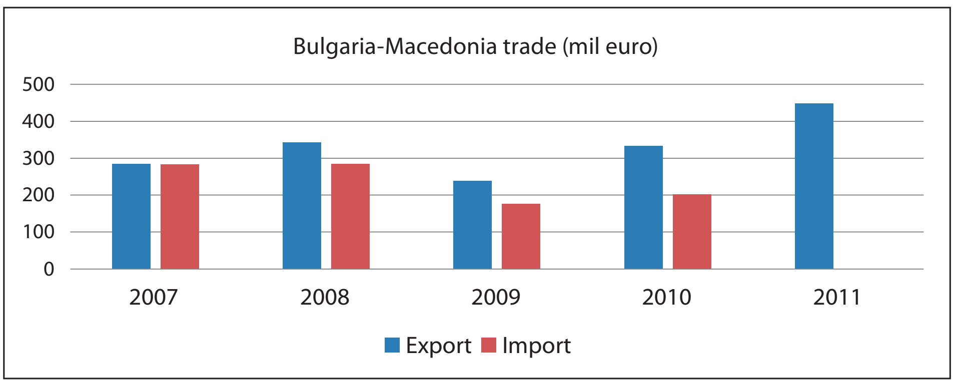
Successful fulfilment of objectives in the field of development assistance and trade aid requires from the government to undertake the following measures:

- Integrate development assistance concept (including trade aid) as a basic strategy line in the economic policy.
- Accelerate elaboration of development assistance and trade aid strategic and programme documents that account for trade activities and trade regimes already in place.
- Assess the needs of countries identified as priority ones for development assistance so as to secure supplementation to and coordination with the already active development programmes. It is necessary to purposefully build up research capacity regarding development cooperation.
- In view of the identical goals, objectives and priorities of the new EU member states in the field of development assistance delivery, to seek options for elaborating joint strategies aiming to support recipient countries, including trade aid.
- Improve coordination between ministries and institutions in devising and implementing development cooperation policy.
- Introduce mechanisms for a transparent management of budgets allocated to development cooperation. In view of a better planning and programming of activities and resources necessary, a specific budget may be allocated to MFA so as to implement development assistance projects on a competitive basis.
- Considering the composition of MFA development assistance unit (diplomats with diverse tasks and responsibilities; high rate of turnover), to entrust execution of development assistance assignments to a specialized agency equipped with highly qualified expert team.
- Look for options to involve more government and private funds in development assistance delivery.
- Conduct outcome monitoring on regular basis which has not been done currently.
- Ensure broader involvement of non-governmental organizations and the private sector in development assistance policy formulation and delivery process. To provide active support to Bulgarian civil organizations expressing interest in international development cooperation.
- Proactive dissemination of information pertinent to EU and Bulgaria's policy in the field of development assistance with the aim to improve general public awareness. It is necessary to design a web-site on development assistance which can provide detailed information about projects and resources management.
- In a timely manner, inform the public about commitments taken by Bulgaria concerning international development cooperation, fulfilment of such commitments, and the contribution of NGO and private sectors.

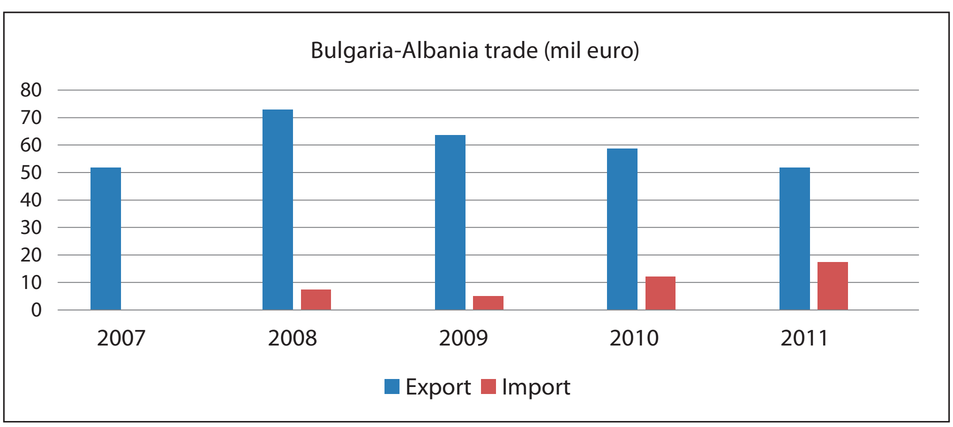
Appendix



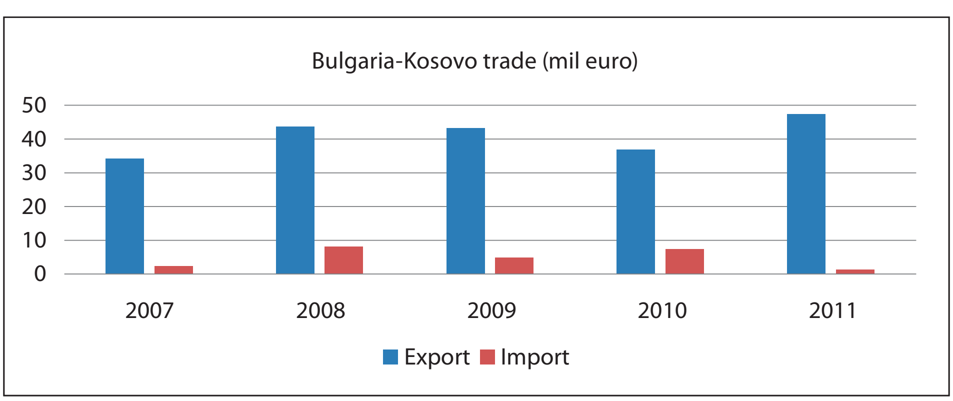
Bulgaria-Serbia trade (mil euro)
700
600
500
400
300
200
100
0
2008
2009
2010
2011
Export Import



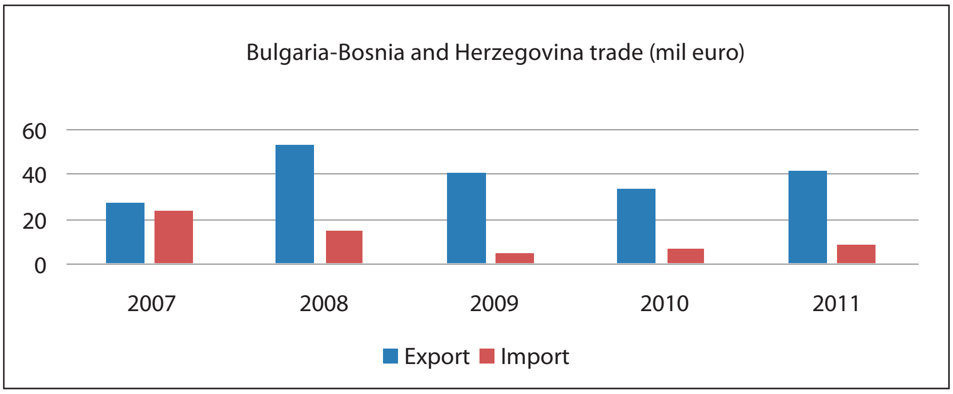
Bulgaria-Macedonia trade (mil euro)
500
400
300
200
100
0
2007
2008
2009
2010
2011
Export Import

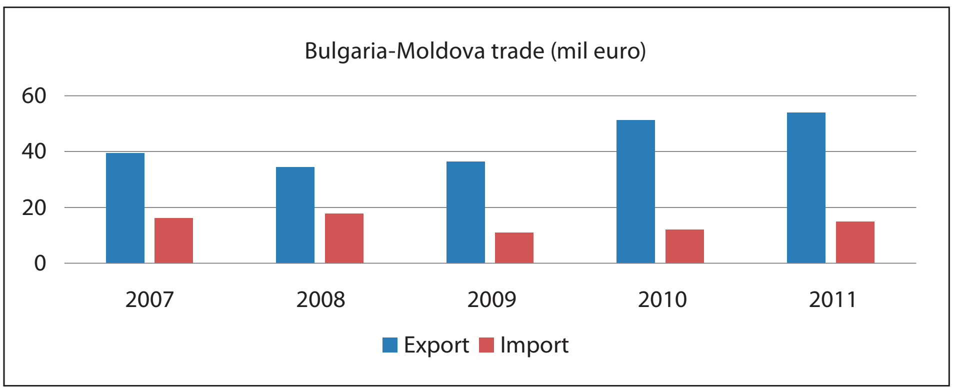


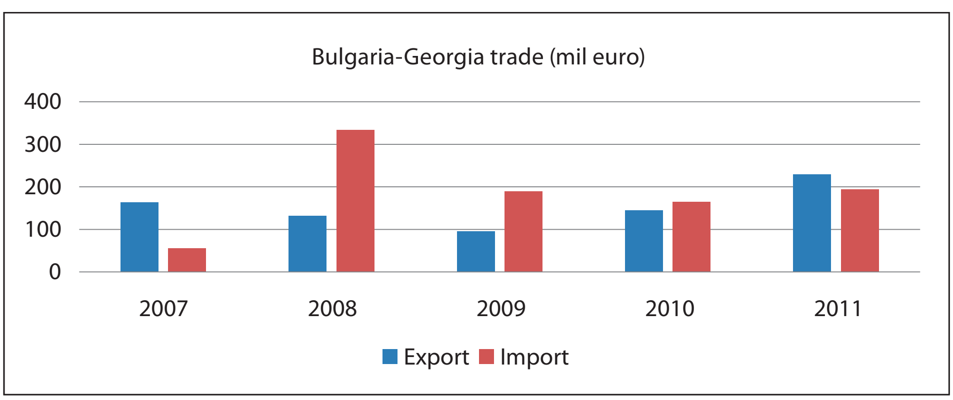
Bulgaria-Albania trade (mil euro)
80
70
60
50
40
30
20
10
0
2007
2008
2009
2010
2011
Export Import

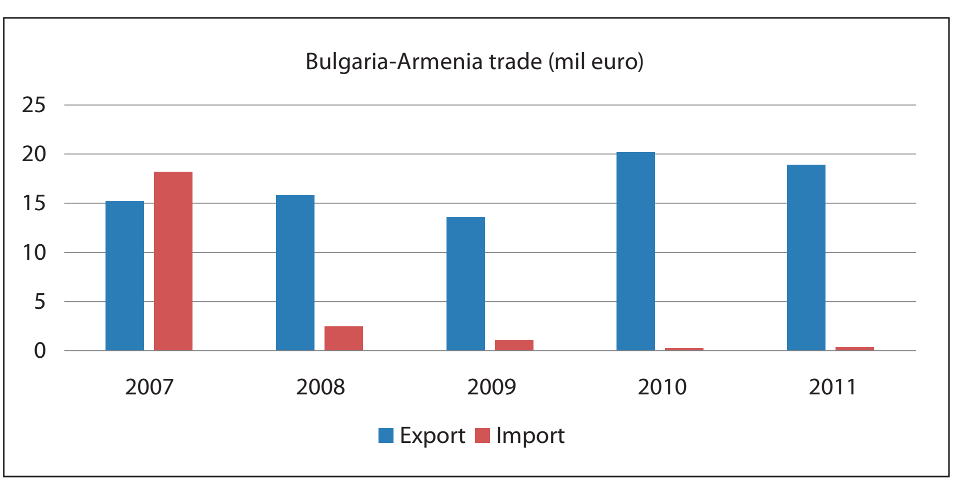


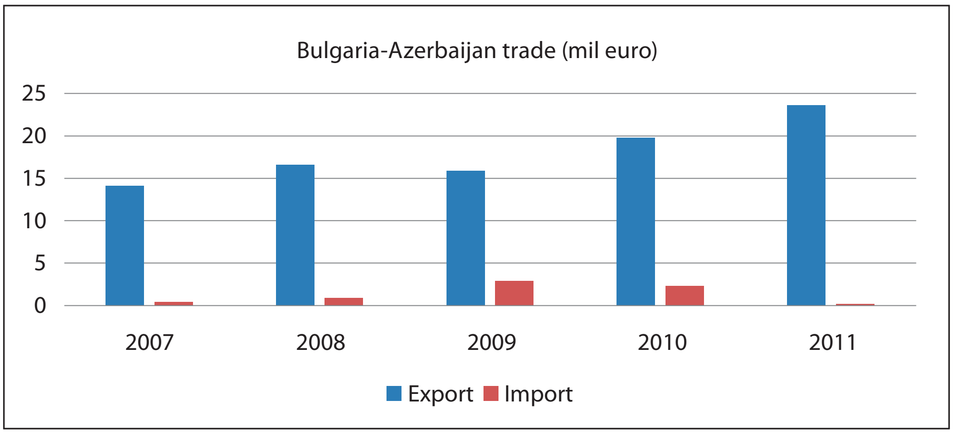
Bulgaria-Kosovo trade (mil euro)
50
40
30
20
10
0
2007
2008
2009
2010
2011
Export Import

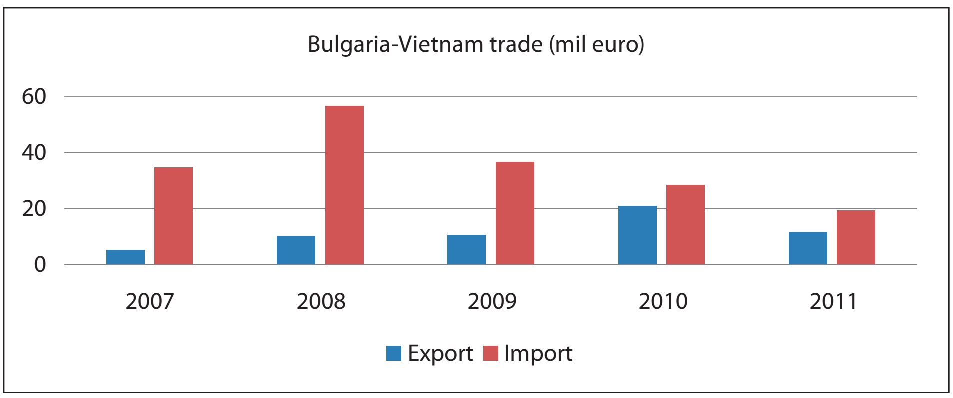

Bulgaria-Bosnia and Herzegovina trade (mil euro)
60
40
20
0
2007
2008
2009
2010
2011
Export
Import


Bulgaria-Moldova trade (mil euro)
60
40
20
0
2007
2008
2009
2010
2011
Export
Import


Bulgaria-Georgia trade (mil euro)
400
300
200
100
0
2007
2008
2009
2010
2011
Export
Import


Bulgaria-Armenia trade (mil euro)
25
20
15
10
5
0
2007
2008
2009
2010
2011
Export
Import


Bulgaria-Azerbaijan trade (mil euro)
25
20
15
10
5
0
2007
2008
2009
2010
2011
Export
Import


Bulgaria-Vietnam trade (mil euro)
60
40
20
0
2007
2008
2009
2010
2011
Export
Import

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CZECH REPUBLIC

1. Introduction to the Czech development policy

Historical overview

Czech Republic as a part of socialist Czechoslovakia was significant provider of the development aid already before the start of its democratic transition in 1989. Czechoslovakia started provision of the development aid already in late fifties; however the biggest intensity of its engagement in the third world was reached in late seventies and especially in the eighties.

Provision of the development aid during the socialism was strongly affected by the logic of cold war[1] when the absolute majority of the development aid was channelled to non-European socialist countries of Cuba, Mongolia, North Korea, Vietnam, Laos and Cambodia. Other priority countries were at the beginning of sixties Ghana, Guinea and Mali and in the eighties Afghanistan, Angola, Ethiopia, South Yemen, Mozambique and Nicaragua. Cooperation with other development countries took place on the principle of "mutual benefit". Development countries that were oriented on Western democracies were labelled as "countries in the hands of imperialism" and Czechoslovakia did not develop intensive cooperation with them.

Development cooperation of Czechoslovakia took many forms such as material aid, technical assistance, scholarships, but also loans for purchase of Czechoslovak goods and services. Material aid (food, medicines, work tools, etc.) was provided for free mainly to non-European socialist countries and selected national liberation movements (Algerian, Angolan, Mozambican, etc.). Technical assistance such as provision of experts, hosting of interns and establishment of training and educational centres was provided for free to socialist and priority countries. Other development countries had to pay at least the wages of experts. Czechoslovakia was also one of the biggest hosting countries for students from development countries, providing 850 scholarships yearly. Since the beginning of sixties, more than 20000 students from developing countries studied in Czechoslovakia.

Velvet revolution in 1989, democratic and economic transition, change of foreign policy and finally division of Czechoslovakia led to the pause in provision of development aid. It was however renewed quickly by the decision of government in 1995 following the Czech Republic accession to the OECD. Czech Republic relatively quickly settled in its role as an emerging donor and started to provide assistance using the knowledge generated during the process of economic and political transition.

In the beginning Czech foreign aid program was characteristic for excessively wide range of territories receiving foreign aid (e.g. according to the foreign aid plan for 2001 there were a total 83 projects in nearly

1 http://www.rozvojovka.cz/zahranicni-rozvojova-spoluprace-cr

50 countries). There were no clearly defined territorial priorities and sectoral targeting was very inconsistent given the relatively low financial volume of the Czech foreign aid. Czech Development cooperation was coordinated by the Ministry of Foreign Affairs, but it was lacking important competences in order to develop, plan and manage foreign aid projects. Provision of the Czech development aid through line ministries was not considered to be transparent and almost no evaluation of foreign aid projects was delivered. The Czech Republic EU accession in 2004 together with existing experience from provision of the development aid led to crucial review of the management of the foreign development aid and implementation of completely new system after 2008.

Current system

Czech Development Cooperation is provided on the legal basis of the Act on Development Cooperation and Humanitarian Aid. This act sets out the powers and competence of all entities involved in development cooperation and specifies rules on the use of funds for various forms of development cooperation and humanitarian aid. Development Cooperation Strategy of the Czech Republic for 2010 – 2017 defines development cooperation as an „instrument of foreign policy with security, economic, environmental, social and migration aspects." It underlines effective application of the specific experience and skills of the Czech Republic (e.g. political, economic and social transition, promotion of democracy), and broader use of ties between the development cooperation of the Czech Republic and the EU (support for trilateral projects). Strategy sets the goals of Czech development cooperation, its principles, priority territories and sectors.

According to the Act, the main coordinator responsible for policy making is the **Ministry of Foreign Affairs of the Czech Republic (MFA)** which is responsible for preparation of strategic and conceptual documents, annual Plans of Bilateral Development Cooperation, programming and evaluations of projects and programmes. Department of Development Cooperation and Humanitarian Aid is responsible for the delivery of tasks devoted to MFA.

Czech Development Agency (CZDA) is a body responsible for implementation of most of the bilateral development aid. It identifies potential areas for cooperation, organizes procurements and calls for proposals; it is responsible for contract management and monitors implementation of projects".

Representatives of ministries meet in the **Council on Development Cooperation**. Council serves as the main coordinating body for the Czech development assistance. Its associate members are also representatives of Czech Forum for Development Cooperation (FORS), Business Platform for Development Cooperation (PPZRS) and Union of Towns and Municipalities of the Czech Republic. Although the Council does not have executive competencies, it has proved to be a useful tool for the cooperation between MFA, line ministries, CzDA and representatives of NGOs and businesses. Council meets usually five times a year and discusses different issues related to Czech development cooperation such as strategies, priorities, annual plans, evaluations, development education, promotion of development cooperation among citizens, etc. Department of Development Cooperation and Humanitarian Aid of the MFA serves as a secretariat of the Council. Council has created also different topical or sectorial working groups that serve for deeper cooperation on selected issues such as preparation of Strategy of development cooperation or preparation of evaluation methodology.

Line ministries were before the transformation of the Czech development aid responsible for development and implementation of projects in their area of expertise. Transformation of the development cooperation aimed at concentrating provision of the whole development aid under the MFA and its Development Agency. However the decision of the government[2] left several interim exemptions from this general rule. All the line ministries were allowed to complete already running projects and several ministries could continue even in development of new initiatives. Ministry of Interior continued implementation of projects in area

[2] Transformation of the Development Cooperation System of the Czech Republic (Government Resolution No 1070/2007 of 19 September 2007)

of migration, security and rule of law, Ministry of Finance in the area of public finances management and Ministry of Industry and Trade in the area of Aid for Trade. MFA conducted in 2012 an evaluation of these exemptions. Evaluation of an independent expert team recommended termination of these exemptions. Since the beginning of 2013 whole coordination and implementation of development aid belongs to the competence of MFA and CzDA. Above mentioned line ministries will continue with administration of projects in the given areas, however they will act under the scrutiny of MFA. The only one specific permanent exemption from the competence of MFA is represented by scholarships offered to foreign students which is administered by the Ministry of Education and corresponding funds related to their healthcare insurance administered by the Ministry of Healthcare.

Exemptions (million CZK)

	2010	**2011**	**2012**	**2013**
Ministry of Social Affairs	5,8	0	0	0
Ministry of Finance	3	4	4	0
Ministry of Interior	26,6	26,6	26,6	0
Ministry of Industry and Trade	148,2	35	5	0
Ministry of Education	140,6	143,5	120	120
Ministry of Healthcare	3	3	3	3
Line ministries Total	**327,2**	**212,1**	**158,6**	**123**
Total development aid	*714*	*679*	*807*	*807*
Share of line ministries	**45,8%**	**31,2%**	**19,7%**	**15,2%**

Sectorial priorities

Czech Republic has established sectorial priorities taking into account experience from the previous period and recommendations from Special Review of the Czech Republic's development cooperation in 2007 undertaken by OECD/DAC. This Review recommended sectorial and topical concentration on areas in which the Czech Republic has a clear comparative advantage and added value.[3] The newly established sectorial priorities build also upon the Czech experience of the process of political, economic and social transition.

Environment

The Czech Republic has practical, transferable experience of qualitative improvements in the environment, and of the introduction and implementation of environmental law and policy. Taking into account its existing capacities, comparative advantages and experience in the field of environmental protection, the Czech Republic mainly focuses on: water supply and water resource protection; the elimination of environmental hazards; the development of waste management, particularly at regional level; the sustainable use of natural resources; protection against natural hazards and disasters; environmental aspects of industry (especially the transfer of advanced environmental technologies and reductions in energy consumption); environmental geology with a focus on hydrogeology; protection of biodiversity; etc.

Agriculture

In agriculture, the Czech Republic focuses mainly on the transfer of know-how, with an emphasis on the use of appropriate agricultural technologies and the cultivation of suitable crops. Water management operations focuses on ensuring access to water, the sustainable management of water, and appropriate irrigation technologies. Forestry is focused on the restoration and protection of forests and agroforestry. The Czech Republic also supports the development of rural agricultural holdings. The Czech Republic's activities in this area contribute to the fulfilment of the Millennium Development Goals (especially MDG 1: Eradicate extreme poverty and hunger).

[3] Development Cooperation of the Czech Republic – DAC Special Review, 2007

Social development

Support for improvement of provision of social and health services and especially support for primary and vocational education. Through its activities in this sector, the Czech Republic contributes to the fulfilment of MDG2: Achieve universal primary education, MDG 5: Improve maternal health, and MDG 6: Combat HIV/AIDS, malaria and other diseases.

Economic development (including energy)

The Czech Republic has devoted many years to technical assistance and building and strengthening expertise in industrial sectors, especially by technology transfer and transfer of know-how. Current priorities in this area focus on promoting sustainable energy, energy self-sufficiency and technological modernization, including transport infrastructure development. With its emphasis on local sustainable energy sources, it is contributing to the fight against climate change and the fulfilment of the Millennium Development Goals (especially MDG 7: Ensuring environmental sustainability).

SMEs

Another long-term goal of Czech economic development projects is to support small and medium-sized enterprises and farmers and to develop the labour market and trade. An integral part of this effort is the Aid for Trade Programme. This primarily entails assistance to the formation of trade policies, supporting conditions and a regulatory trade framework, with particular assistance for state administration in setting rules and strategies and in removing administrative barriers. This leads to progressive, beneficial trade liberalization. In a broader sense, it also covers the development of the domestic market and local production capacities and the building of infrastructure to support trade. At the same time, support targets the business climate and the development of market institutions through the transfer of experience and know-how.

The Promotion of democracy, human rights and social transformation

The Czech Republic has a comparative advantage over most of the established donor countries – its experience of a process of political, economic and social transformation. It seeks to capitalize on this advantage in cooperation with countries undergoing similar changes, and in countries where the democratic process has not been initiated. The Czech Republic's main tool for the support of democracy is the Transition Cooperation Programme managed by the Department of Human Rights and Transformation Policy (LPTP) at the Ministry of Foreign Affairs. The priority areas of this programme include the strengthening of civil society and its cooperation with local government, the development of an independent media, education aimed at active citizenship and the promotion of defenders of human rights.

Source: The Development Cooperation Strategy of the Czech Republic 2010 - 2017

Development Cooperation Strategy of the Czech Republic defines together 14 priority countries of the Czech development assistance. It divides them into three categories: programme countries, project countries and former programme countries. OECD DAC Special Review of the Czech development assistance recommended reduction in the number of priority countries and more focus on the least developed countries, especially from Sub-Saharan region. In line with this recommendation the Czech Republic reduced number of programme countries from eight (Angola, Bosnia and Herzegovina, Yemen, Moldova, Mongolia, Serbia, Vietnam, Zambia) to five (Afghanistan, Bosnia and Herzegovina, Ethiopia, Moldova, Mongolia). It also opted for the gradual scaling down of donor activities in Angola, Yemen, Vietnam, and Zambia, thus creating a category of phase-out (former programme) countries. These countries continue to receive assistance although on a reduced focus and scope. Assistance to them shall be terminated in 2014. Programme countries are on the top of the list of priorities for the Czech Republic and the development aid to these countries is provided on the basis of so-called cooperation programmes agreed jointly with recipient countries. These programmes define individually sectoral and thematic priorities as well as the forms of assistance. In case of project countries (Georgia, Cambodia, Kosovo, Palestine and Serbia), the cooperation is not strictly defined by such a programme.

Selection of priority countries for Czech development assistance took into account balance between the main aim of the assistance to eradicate poverty and its perception of being a tool of Czech foreign policy. Individual countries were thus selected on the basis of different reasons such as poverty reduction, support for transition, EU integration, stabilisation and security but following factors were considered:

- Bilateral and development relations with the Czech Republic

As the development assistance is an integral part of the Czech foreign policy, selection of recipient countries reflects overall priorities of the Czech Republic in the area of foreign relations. Experience has proven that the intensity of bilateral relations and presence of the diplomatic mission in the recipient country is crucial for the aid efficiency.

- The need for development cooperation from the partner country

As the primary goal of the development assistance shall be eradication of poverty, Czech Republic takes into consideration also the level of socio-economic development measured by various indicators such as gross national income or human development index.

- Readiness of a country to accept assistance

Recipient country of the Czech ODA has to have willingness to fight poverty and to work actively on its own development. Country shall also respect human rights and fundamental freedoms. Certain level of good governance is also needed for effective provision of assistance.

- Consideration of the division of labour with other donors

Presence of other donors and volume of ODA per capita were among the most important factors for the definition of priority countries. Czech Republic wants to engage in countries where it has comparative advantage as a donor and where it can provide added value to existing donor activities.

When defining priorities, Czech Republic took into account also geographical distribution of ODA. Three regions were defined as crucial: Western Balkans and Eastern Europe, Central and South Asia and Sub-Saharan Africa. In case of Western Balkans and Eastern Europe, crucial role was played by geographical vicinity and foreign policy interests (stability in the neighbourhood of the Czech Republic and the European integration). Selection of Sub-Saharan Africa reflects the aim of ODA to eradicate poverty. In case of Asian countries the combination of different criteria such as historical engagement (Mongolia, Vietnam, Afghanistan), security (Afghanistan) and economic (Mongolia, Vietnam) were taken into account.

Regional distribution of ODA (2011)

Region	(million USD)	% of bilateral ODA
Europe	19,88	26,05 %
Western Balkan	8,53	11,18 %
Eastern Europe	9,09	11,91 %
Other	2,26	2,96 %
Africa	9,69	12,70 %
Northern Africa	1,49	1,95 %
Sub-Saharan Africa	8,21	10,76 %
America	1,95	2,56 %
North and Central America	1,23	1,61 %
South America	0,73	0,95 %
Asia	28,42	37,25 %
Middle East	3,25	4,26 %
South and Central Asia	17,50	22,94 %
East Asia	7,67	10,05 %
Oceania	0	0 %
Other (territorially not defined)	16,36	21,44 %
Total	**76,29**	**100 %**

Source: MFA CZ

The biggest recipient of Czech ODA in 2011 was Afghanistan with 11,36 million USD that constituted almost 15 per cent of bilateral ODA. This was caused by relatively high costs of implementation of specific development projects, especially by the activities of Provincial Reconstruction Team in Logar[4]. Other top recipients were Mongolia, Moldova, Bosnia and Herzegovina and Serbia. Changes in ranking of recipients in the last years reflect changes in the Czech ODA priorities. Presence of Ukraine and Belarus that are not priority countries of Czech development assistance among top ten recipients is explicable by the high number of asylum seekers from these countries in the Czech Republic (reported as ODA), high number of scholarships given to students from these countries as well as their inclusion among the priority countries of the Transition Cooperation Programme.

Top Ten Recipients (mil. USD)

	2005		2006		2007		2008		2009		2010		2011	
Ranking	Country	USD	Country	USD	Country	USD	Country	USD	Country	USD	Country	USD	Country	USD
1	Iraq	8,13	Iraq	11,80	Afghanistan	10,62	Afghanistan	42,10	Mongolia	6,80	Afghanistan	13,26	Afghanistan	11,36
2	Serbia and Montenegro	6,89	Serbia	6,00	Serbia	9,40	Serbia	7,80	Georgia	5,60	Mongolia	6,76	Mongolia	4,69
3	Ukraine	4,62	Afghanistan	4,20	Mongolia	4,04	Mongolia	6,00	Ukraine	5,00	Moldova	3,97	Moldova	4,28
4	Pakistan	3,70	Indonesia	3,28	Vietnam	3,04	Palestine	4,70	BiH	5,00	Georgia	3,89	BiH	3,58
5	Mongolia	3,04	Mongolia	2,72	BiH	2,61	Vietnam	3,90	Afghanistan	4,60	Serbia	3,58	Serbia	3,19
6	Afghanistan	1,96	Ukraine	2,69	Moldova	2,41	BiH	3,30	Serbia	4,50	Kosovo	3,52	Ukraine	3,03
7	Vietnam	1,42	BiH	2,13	Ukraine	2,30	Ukraine	3,20	Vietnam	3,60	BiH	3,10	Ethiopia	2,93
8	BiH	1,34	Vietnam	1,91	Indonesia	1,84	Moldova	2,90	Kosovo	3,40	Ukraine	3,01	Georgia	2,05
9	India	1,31	Belarus	1,71	Angola	1,47	Georgia	2,20	Moldova	3,10	Haiti	2,77	Belarus	1,78
10	China	1,30	Egypt	1,35	Belarus	1,45	Angola	1,90	Cambodia	2,80	Vietnam	2,36	Palestine	1,76

Source: MFA CZ

Total volume of Czech ODA in 2011 was 250 million USD thus reaching 0.125 per cent of its GNI. Volume of Czech ODA started to grow continuously especially after the EU accession. Between 2004 and 2011 the overall amount of ODA rose from 108 million USD to 250 million USD. Considering the share of ODA in GNI, it has increased as well although to a much smaller extent. In 2004 it reached 0,106 per cent of GNI and in 2011 0,125 per cent of GNI. Czech Republic is thus not fulfilling its international commitments to reach the 0.17 per cent of ODA/GNI by 2010 and 0.33 per cent in 2015. However in comparison with its neighbours from Central and Eastern Europe such as Poland (0,08), Hungary (0,11), Slovakia (0,08), the Czech Republic is not doing bad. The government was planning to genuinely increase the share of ODA by 0,01 per cent a year but due to the economic crisis and application of strict austerity measures this has not been happening. The last augmentation of the Czech development assistance budget (bilateral ODA excluding costs related to the refugees in the Czech Republic, peace-keeping and civilian operations or costs incurred by municipalities and regions) happened between 2011 and 2012 – from 680 million CZK (34,3 million USD) to 807,2 million CZK (40,75 million USD). This amount is budgeted also for the following years – until 2015.

Share of ODA in Czech GNI in the Period 2003-2011

	2003	2004	2005	2006	2007	2008	2009	2010	2011
ODA to GNI	0,101	0,106	0,114	0,120	0,110	0,124	0,120	0,127	0,125

Source: MFA CZ

4 Provincial Reconstruction Team in Logar, Afghanistan was a joint mission of Ministry of Foreign Affairs and Ministry of Defence that implemented development projects in the area of security, infrastructure, agriculture, water management and media. During 5 years of existence (2008-2013) implemented together 248 projects.

Since the EU accession in 2004, there is an evident tendency to increase the share of multilateral ODA on the total ODA. While in 2003 multilateral ODA constituted only 10 per cent of total ODA, in 2011 it was already 70 per cent. While funds allocated for bilateral ODA remains more or less stable – 80 million USD in 2003 and 77 million USD in 2011, there is a significant increase of the multilateral aid – from 10 million USD in 2003 to 174 million USD in 2011. This is mainly a result of the commitments to take part in the financing of the EU development policies and since 2011 also mandatory contribution to the European Development Fund.

Total Czech ODA of the Czech Republic in 2003-2011 (mil. USD)

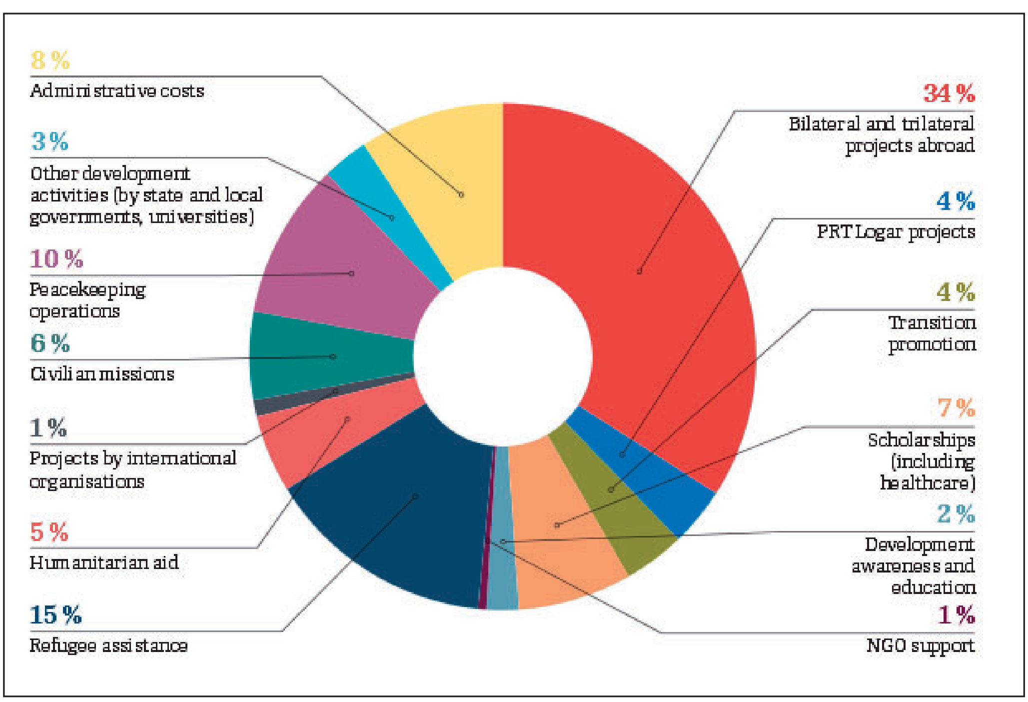
ODA/Year	2003	2004	2005	2006	2007	2008	2009	2010	2011
Bilateral ODA	80,36	63,48	64,39	77,70	80,95	117,14	101,04	79,36	76,96
Multilateral ODA	10,19	44,69	70,74	83,16	97,93	132,07	113,68	148,20	173,50
Total ODA	**90,55**	**108,17**	**135,13**	**160,86**	**178,89**	**249,21**	**214,72**	**227,56**	**250,46**

Source: MFA CZ

The most important sectors financed by the Czech bilateral ODA in 2011 were support for government and civil society, education, water supply and agriculture. Other relevant sectors included social infrastructure, healthcare, environment protection and energy sector. Development Cooperation Strategy defines priority sectors for programme countries of Czech development assistance (see Annex 1.)

Significant part of the ODA was however incurred in relation to refugees and asylum seekers in the Czech Republic (15 per cent), scholarships for students (7 per cent), peacekeeping operations and civilian missions (16 per cent) and administrative costs (8 per cent). For detailed structure of the Czech ODA, please refer to Annex 2. According to the OECD rules these costs can be reported as ODA although their impact on the real development in recipient countries is doubtful or indirect.

Distribution of Czech bilateral ODA in 2011 by assistance modality



Source: Czech Development Cooperation, MFA CZ

Methodology

The research objective of this study was to analyze development of bilateral trade with priority ODA recipient countries under applied trade regimes and trade agreements as a powerful engine for economic growth, poverty reduction and sustainable development.

In order to meet the research objective, the following steps were taken. The first phase involved desk research including study and analysis of the key documents:

- Strategic documents in the area of foreign policy, development assistance and foreign trade, such as Foreign policy strategy of the Czech Republic, Development Cooperation Strategy, Transition Promotion Strategy, Export Strategy, Act on Development Cooperation and Humanitarian Aid, and respective decisions of the government
- Other important documents such as: Annual plans of development cooperation, Annual reports on the development cooperation, ODA provision guidelines, development cooperation programmes with individual countries
- ODA statistics and trade statistics
- Policy and research papers
- Webpages of relevant institutions

The second phase involved interviews with various stakeholders from Ministry of Foreign Affairs, Ministry of Industry and Trade, Czech Forum for Development Cooperation, Business Platform for Development Cooperation, as well as representatives of private companies and NGOs implementing ODA projects.

The third phase consisted of the analysis of opinions and information received from focus group.

Trade relations with programme countries of the Czech development assistance were further assessed.

2. Current state of bilateral trade and applied trade regimes

Czech Republic is an extremely open economy where foreign trade plays crucial role in economic development. The share of export of goods and services on the GDP reached 68 per cent in 2010. Moreover, in recent years the GDP growth in the Czech Republic was mainly attributed to the increase of net exports. Overall volume of exports in 2011 reached 163 billion USD and imports amounted to 152 billion USD. Czech Republic's foreign trade thus ended in surplus of around 10 billion USD. However, there is a clear orientation of the Czech foreign trade on developed countries and especially other EU member states. In 2011, 90 per cent of Czech exports led to developed countries, with 83 per cent destined to the EU countries alone. In case of imports, 71 per cent originated in developed countries and 64 per cent in the EU countries. It means that only ten per cent of Czech exports go to the developing or transition countries (including Russia and CIS countries, China, Brazil, etc.). Although almost 30 per cent of imports come from other than developed countries, substantial parts of these imports are coming from two countries: Russia (minerals, oil, gas) and China (consumer products). This leads us to a conclusion that the trade turnover with developing countries including of the ODA recipients countries is rather negligible. This is likely to remain the case despite a new Czech export strategy adopted in 2012, which aims at more trade diversification.

The Czech Republic as both WTO and EU member has very little room for manoeuvre in designing its own trade policy as most of the measures and decisions are taken at the level of these two organizations. The European Union exercises common trade policy, whose integral parts are the trade regimes with third countries. The EU negotiates and concludes different types of trade agreements with developing and transition countries which give them a preferential access to EU market beyond the WTO obligations. The rationale of such agreements is to provide asymmetrical trade regimes by removing especially tariff barriers more quickly on part of the EU.

These include for instance:

- Trade agreements with the ACP countries in the framework of so-called Cotonou agreement,
- association agreements especially but not exclusively with southern EU neighbours, but for instance also with Chile,
- Deep and comprehensive free trade agreements (DCFTA) in the framework of the Eastern partnership,
- Stabilisation and association agreements with the countries of Western Balkans

Similar trade agreements are envisaged to be concluded with the developing countries (or blocks of developing countries) that are WTO members or are heading for its membership.

Those developing countries that do not benefit from any free trade agreements with the EU fall under the regime of Generalized Scheme of Preferences (GSP) that grants them lowest tariffs and thus easing their access to the European market. The least developed countries benefit from the system called "Everything but Arms", which provide them for non-tariff access to the EU market.

Taking into account the nature of the Czech economy, which is extremely open, export oriented and to a large extent export dependent, as well as its tradition of highly industrialized country, the Czech Republic disposes with rather sophisticated policy of supporting its exporters and assisting them in finding new markets as well as establishing them at such markets. This is especially visible in comparison with countries of similar size and geographical location.

Export support

The export support scheme includes multiple governmental or quasi-governmental agencies. The overarching role in the system pertains to the **Ministry of Industry and Trade**, which is charged with the overall responsibility for strategy setting, coordination and management of the export support system. The other major institutions in charge of export support include:

Czech Export Bank (CEB) – provides financing and export credits to big Czech companies as well as small and medium sized companies. It focuses on export operations that require long-term financing at interest rates and in volumes that are not available to exporters on the banking market under the current domestic conditions.

Export Guarantee and Insurance Corporation (EGAP) – provides credit insurance of exports of goods and services from the Czech Republic against political and commercial risks uninsurable by commercial insurance.

Ministry of Foreign Affairs (MFA) – is responsible for economic diplomacy. Commercial sections[5] of its diplomatic missions provide information and assistance to Czech companies that want to get established in a given country or territory, for instance by organizing business missions, or by setting up presentations of Czech companies and products. The MFA is also in charge of coordinating the Czech Centres network that also play a role especially in the area of support of tourism.

The most important part of the system is indubitably **CzechTrade**, which provides a complex set of services in support of exporters. These services include:

- Identification and verification of business contacts
- Addressing selected partners and verification of their interest in cooperation
- Setting up of business meetings and negotiations in a selected country
- Territorially focused analysis

[5] However, there is a shared responsibility for management of these sections with the Ministry of Industry and Trade.

- Long-term export assistance
- Legal, tax and custom service
- Analysis in the area of intellectual property protection
- Office outsourcing

A plenitude of information is available in the Czech language on the potential target territories and on investment and business opportunities therein, including political, economic and legal situation, as well as risks and opportunities of doing business in such territories. Two main channels of information include the so-called business info portal (www.businessinfo.cz) as well as the so-called green line of the export support.

The problem with this system is twofold. Firstly there is a certain duplicity whereby in some countries both CzechTrade as well as economic sections of diplomatic representations act as service and know-how provider for Czech entities and the division of tasks is not always clear. The general rule is that the queries of private companies are firstly processed by the CzechTrade representation, while those stemming from state institutions are handled by the diplomatic missions. It is doubtful whether this is the most efficient division of tasks. One could for instance envisage the system in which, the questions relating to general political, economic and social environment in given country would be handled by the diplomatic representation, while questions relating to specific sectorial economic activity would be processed by the CzechTrade representation. Secondly, the CzechTrade potentially provides much broader range of services and information than the economic diplomacy but the former disposes with a rather limited number of representative offices.

This problem is particularly imminent in case of developing countries, which potentially hampers the penetration of Czech business into their markets and leaves the potential of development of mutual trade unexploited. Out of the recipient countries of the Czech ODA, the CzechTrade is represented only in Serbia and Vietnam, the latter however being phased-out from the Czech ODA by 2014.

The Czech government adopted a new export strategy in 2012. This strategy is a reaction to several factors. First is the high degree of dependence of the Czech economy on trade with the EU, which is seen as its vulnerability. This becomes a particularly acute problem in a context of economic slow-down in Europe, which decreases demand for Czech products and hampers its economic development. For this reason, the Czech policy makers are quite eager to search for new markets for the Czech exporters such as the fast growing Asian economies, where on the contrary demand is on a rise.

New strategy is built on memory of a traditionally strong presence of Czechoslovak businesses in the third world markets in the socialist era. These markets, however, were largely abandoned during the transition process and the Czech government as well as entrepreneurs are now trying to re-establish previous links.

One of the key elements of the new strategy is a redefined list of priority countries,[6] which was adopted in consultation with the business community taking into account points such as the countries' growth potential, absorption capacity and compatibility with the Czech economy. It is interesting to note that out of the 38 priority countries identified in the new export strategy, only three feature among the Czech ODA recipients: Serbia, Ethiopia, and Vietnam.

But the overall principle aim of the Strategy is to further improve the system of export support in three areas: information provision, export development and development of business opportunities. This aim should be achieved through implementation of specific projects. In this context it is important to mention that one such project is aiming at increasing coherence between foreign trade and development cooperation. This, however, poses a challenge: at the moment there is no system of coordination between institutions involved in development cooperation provision and institutions involved in the area of foreign trade. This absence

[6] Strategy defines 12 top priority countries – Brazil, China, India, Iraq, Kazakhstan, Mexico, Russia, Serbia, Turkey, Ukraine, USA, Vietnam and other priority countries - Angola, Argentina, Australia, Azerbaijan, Belarus, Egypt, Ethiopia, Chile, Ghana, Croatia, Israel, Japan, South Africa, Canada, Columbia, Morocco, Moldavia, Nigeria, Norway, Peru, Senegal, Singapore, UAE, Switzerland, Thailand and Indonesia.

of coordination makes it difficult to exploit the link between development assistance and development of follow up trade relations. The development projects are often conceived as one-off activities without further thinking about how the contacts established in course of the project implementation can be used further to develop business ties. One of the possible ways of addressing this challenge according to the project could be the establishment of the Czech Development Financial Institution. Another problem identified is that the Czech companies are not sufficiently successful in bids for the implementation of the international development projects financed for instance by the European Development Fund, thus the project aims at increasing the capacities of Czech companies to succeed in such bids.

Trade relations with programme countries of Czech ODA

Afghanistan

Afghanistan, although not being a member of WTO, benefits from the tariff-free access to EU market in the framework of "Everything but Arms" programme.[7] Last year negotiations for a Cooperation Partnership Development Agreement with Afghanistan were launched. This agreement shall cover a broad range of sectors including trade, development and justice and home affairs.

There are no trade related treaties between the Czech Republic and Afghanistan.

Bilateral trade Czech Republic - Afghanistan (thousand USD)

	2006	2007	2008	2009	2010	2011
Turnover	5572	15684	47697	30758	20980	14553
Export	4450	15090	47 223	30413	20348	13742
Import	1122	594	474	345	632	811
Balance	3328	14496	46749	30068	19716	12931

Trade turnover between Czech Republic and Afghanistan (especially imports) is negligible (Afghanistan ranks 111th in the mutual trade turnover of the Czech Republic). The existing trade relations are very much connected with the Czech presence in Afghanistan, especially with the activity of the Provincial Reconstruction Team (PRT) in Logar and the provision of development aid. This is demonstrated by the fact that phasing-out of the Czech presence in the country (closure of PRT) leads to the drop of Czech export. A large bulk of the Czech exports into the country is represented by vehicles, tractors, boilers and electronic devices.

Bosnia and Herzegovina

Trade relations with Bosnia and Herzegovina are regulated by the Interim Agreement on trade and trade related matters with the EU from 2008. This agreement shall be replaced by the Stabilisation and Association Agreement which was concluded already in 2008 and ratified by all the EU member states, however will enter in force only once Bosnia and Herzegovina implements necessary constitutional reforms. However, interim trade agreement provides room for gradual establishment of a free trade area between Bosnia and Herzegovina and the EU. Bosnia and Herzegovina is not yet a WTO member, however accession negotiations are at their final stage and shall be concluded in 2013.

Following trade related agreements between the Czech Republic and Bosnia and Herzegovina are in force:

- Agreement on Economic Cooperation between the Ministry of Industry and Trade of the Czech Republic and the Ministry of Foreign Trade and Economy (2010)

[7] Regulation (EC) 416/2001, the so-called „EBA Regulation" („Everything But Arms"), granting duty-free access to imports of all products from least developed countries, except arms and ammunitions, without any quantitative restrictions.

- Agreement between the Czech Republic and Bosnia and Herzegovina for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and on Capital (2007)
- Agreement on the Promotion and Protection of Investments between the Czech Republic and Bosnia and Herzegovina (2002)
- Protocol between the Czech Republic and Bosnia and Herzegovina on the amendments to the Agreement between the Czech Republic and Bosnia and Herzegovina on the Promotion and Protection of Investments (2009)

There are many other treaties in force between the Czech Republic and Bosnia and Herzegovina, mainly from socialist times covering different areas such as healthcare provision, social security, tourism, customs authorities cooperation, transport, etc.

Bilateral trade Czech Republic – Bosnia and Herzegovina (thousand EUR)

	2007	2008	2009	2010	2011
Turnover	150 738	168 661	132 592	160 735	202 669
Export	117 360	133 751	105 495	122 868	143 415
Import	33 378	34 910	27 094	37 867	59 254
Balance	83 982	98 841	78 398	85 001	84 161

Bosnia and Herzegovina is the biggest trading partner of the Czech Republic among the programme countries of the Czech ODA[8]. In 2011 the total exports to Bosnia and Herzegovina reached 143 million EUR, representing an increase by 10 per cent compared to previous year. This is explicable by geographical proximity as well as thanks to established business ties from past. The main export articles represented vehicles, railway and tramway vehicles, reactors, boilers, and industrial products. Imports in 2011 amounted to 59 million EUR, i.e. increasing by 55 per cent compared to the previous year. However, a substantial part of these imports is realized by one of the Czech steelworks. Bosnia ranks 55th in the Czech mutual trade turnover.

Ethiopia

The basic framework of the Czech – Ethiopian trade relations is set by the EU, specifically by the Cotonou agreement. Ethiopia is not yet a WTO member, but the accession negotiations are underway.

The Czech Republic and Ethiopia have concluded the following trade related agreements:

- Convention between the Czech Republic and the Federal Democratic Republic of Ethiopia for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (2007)
- Agreement on Economic Cooperation between the Government of the Czechoslovak Socialist Republic and the Provisional Military Government of Socialist Ethiopia (1986)

The negotiation of the Promotion and Reciprocal Protection of Investments treaty has been suspended.

[8] Biggest trading partner of the Czech Republic among Czech ODA recipient countries is Serbia. In 2011 total export from the Czech Republic reached 392 million EUR and imports 194 million EUR.

Bilateral trade Czech Republic - Ethiopia (thousand USD)

	2007	2008	2009	2010	2011
Turnover	20 937	17 687	16 844	9 049	13 368
Export	16213	13144	13637	4084	6021
Import	4724	4543	3207	4965	7347
Balance	11489	8601	10 429	-880	- 1 326

Mutual trade with the Ethiopia is the only one out of the ODA programme countries that has resulted in a negative balance for the Czech Republic. The Czech exports are dominated by vehicles a market products, while imports by food products. The trade turnover amounts to a mere 13 million USD in 2011 which puts Ethiopia in the last place among the Czech ODA programme countries.

Moldova

Trade relations with Moldova are regulated mainly in the WTO framework. Moreover, Moldova's exports to the EU are already liberalised to a large extent under the EU Autonomous Trade Preferences. It grants Moldova unlimited and duty free access to the EU market for all products originating in Moldova, except for certain agricultural products (for which tariff rate quotas are defined). Deep and Comprehensive Free Trade Agreement negotiations are being conducted with the aim of establishing free trade area between the EU and Moldova.

Czech Republic also concluded following bilateral trade related agreements with Moldova:

- Agreement between the Czech Republic and the Republic of Moldova for the Promotion and Reciprocal Protection of Investments (1999)
- Protocol between the Czech Republic and the Republic of Moldova on the amendments to the Agreement between the Czech Republic and the Republic of Moldova for the Promotion and Reciprocal Protection of Investments (2008)
- Protocol to the Convention between the Czech Republic and the Republic of Moldova for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and on Property (2003)

Bilateral trade Czech Republic - Moldova (thousand EUR)

	2006	2007	2008	2009	2010	2011
Turnover	33,804	45,297	51,497	32,104	42,232	52,589
Export	28,53	32,308	35,612	24,958	34,344	41,571
Import	5,274	12,989	15,885	7,146	7,888	11,018
Balance	23,256	19,319	19,727	17,812	26,456	30,553

Moldova as a part of Soviet Union has been traditional trading partner of the Czech Republic (Czechoslovakia), but as in case of the other former Soviet Union territories this market was abandoned during the transition period and currently the Czech businesses strive at regaining it. The main items of the Czech exports are vehicles and telecommunication products. It is interesting to note that as much as 40 per cent of imports from Moldova is represented by alcoholic beverages (especially wine). Great expectations are linked to the potential of DCFTA which will open the Czech market for Moldovan agricultural products. Moldova ranks 75th in Czech mutual trade turnover.

Mongolia

Czech trade relations with Mongolia are realized within WTO framework and also under the EU – Mongolia Trade and Cooperation agreement from 1993. Mongolia as well benefits from the virtually tariff-free entry into the EU markets through the GSP+ programme.

Czech Republic also concluded following trade related bilateral agreements with Mongolia:

- Agreement between the Government of the Czech Republic and the Government of Mongolia for the Promotion and Reciprocal Protection of Investments (1998)
- Agreement between the Czech Republic and Mongolia for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and on Capital (1997)
- Agreement on the development of the co-operation in the field of tourism between the Ministry for Regional Development of the Czech Republic and the Ministry of Infrastructure of Mongolia (2002)
- Agreement on Economic Cooperation between the Government of the Czech Republic and the Government of Mongolia (2005)
- Agreement between the Government of the Czech Republic and the Government of Mongolia regarding Co-operation and Mutual Assistance in Customs Matters (1998)

On the basis of economic cooperation agreement between the two countries, Czech – Mongolian Joint Committee was created that serves as an instrument of support of bilateral economic interests and deals with specific proposals for enhancing cooperation. Since 2005, four meetings of the committee took place. Last committee meeting in 2012 was accompanied by a number of Czech companies' representatives visiting Mongolia.

Bilateral trade Czech Republic - Mongolia (thousand USD)

	2006	2007	2008	2009	2010	2011
Turnover	5 517	10 485	15 611	8 546	8 298	13 590
Export	4 920	10 130	12 715	8 126	7 895	13 129
Import	597	355	2896	420	403	467
Balance	4 323	9 775	9 819	7 706	7 492	12 662

Czechoslovakia used to be the second biggest trade partner of Mongolia (after Soviet Union) during the communist time. However, during the nineties, the Czech Republic abandoned this market. Nowadays, bilateral trade between Czech Republic and Mongolia is very low (Mongolia ranks in 112th place of the list of trade partners according to the volume of trade). Moreover, there is a strong imbalance between level of exports and imports between the two countries. Export from the Czech Republic to Mongolia in 2011 was 29 times higher than the import and consisted mainly of machinery and transport equipment (50 per cent), followed by chemicals (18 per cent) and industrial products (16 per cent).

Conclusion

With the exception of Afghanistan, the trade with all the ODA programme countries is on a rise. However this is difficult to establish a link between ODA provision and growing trade turnover. The same trend of bilateral trade increase can be traced in case of the other developing countries, which are not recipients of Czech ODA, as well as with the industrialized nations. Moreover the trade volume dynamics with industrialized countries is increasing even more substantially. Due to the overall low level of trade exchange with all the ODA recipient countries, the statistic can be easily distorted by single trade operation of a large volume.

3. Trade related activities

Investments

The level of Czech investments abroad is generally still quite low. The Czech Republic remains so far predominantly investment recipient country rather than an exporter of capital. The major destination for the Czech investments is the EU countries, especially the neighbouring ones, and also Russia. Most of the Czech investments are represented by opening business branches of companies and relatively little by opening production capacities.

Of the ODA recipient countries, the Czech investments efforts were mostly visible in Western Balkans. In Serbia, this is the case of rubber industry investment into a tyre plant for agricultural and construction machines. This investment is worth 40 million EUR and creating 500 jobs.

In case of Bosnia and Herzegovina, two investments are worth mentioning: a joint enterprise producing small agricultural machinery and a joint venture focused on the reconstruction and development of the railway network in Bosnia and Herzegovina.

A major area of the Czech investments in Western Balkans was to be represented by energy sector. For instance the Czech Power Company (CEZ) was planning to invest 1.5 billion EUR to reconstruction of one and construction of another thermo power plant. This was supposed to represent the biggest single investment in Bosnia and Herzegovina. This investment, however, did not materialize because CEZ withdrew due to the failure of the Bosnian partner to stand up to its obligations. Another failure was the de-facto nationalisation of electricity distribution company owned by CEZ in Albania.

The most important Czech investment in Czech ODA recipient countries is currently an investment of Energo Pro company in Georgia. This company currently owns 15 hydro-power plants, is constructing two new ones and also owns gas power plant and an electricity distribution company. The total investment is worth 150 million USD and it represents the biggest energy holding in Georgia.

Plans for the construction of the thermo power plant in Moldova by the Czech company EPH Holding are being contemplated already for several years. In case this investment worth 550 million EUR materializes, it would represent the most important single investment in Moldova since 1994.

Other ODA programme countries (Ethiopia, Mongolia and Afghanistan) have not attracted any significant Czech investment.

Aid for Trade

The Czech Republic started Aid for Trade activities in 2008. This programme remains in the competence of Ministry of Industry and Trade, despite centralization of the development assistance in the Czech Development Agency. The Aid for Trade budget rose from approximately 100,000 USD in 2008 to 300,000 USD in 2013. The Aid for Trade activities are implemented in both programme and project countries of the Czech ODA. Most of these projects, however, do not meet the more narrow[9] definition of Aid for Trade programme and thus can be hardly decoupled from the other ODA projects. All the projects, however, fulfil the broader definition of Aid for Trade as they lead to improvement of recipient countries' production and supply-side capacity.

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9 Aid directly helping beneficiaries formulate and implement trade policies and practice, so-called trade related assistance.

Examples of implemented projects:

- Support of trade development in Serbia – the project aimed at transferring know how and experience concerning functioning of the single EU market, standards approximation, SMEs support, export strategy planning, and targeted the representatives of Serbian business community.
- Support of SME sector in Mongolia through transfer of the Czech experience and know-how. Project assisted the public administration in formulating and implementing the regulatory framework for domestic market aimed at easing of doing business and at the improvement of entrepreneurial environment.
- Resources survey of thermal and mineral waters in southern Ethiopia focused on the assessment of water sources potential and their further commercial use. Similar project were implemented also in Moldova.
- Waste management project in Bosnia and Herzegovina aimed at transfer of Czech experience in the area of collection, recycling, re-usage and final liquidation of waste. Part of the project consisted in assistance in application of single legal arrangement and guidelines for the whole territory of Bosnia and Herzegovina.

Technical assistance

Technical assistance provided by the Czech Republic is coordinated by the Ministry of Finance, who is also its main implementer. Technical cooperation programme of the Ministry of Finance focused on cooperation with partners' governmental departments concerning the financial and economic transformation. Since 2007, in total 46 study visits at the Ministry of Finance have taken place in its framework and a number of consultations and seminars on public finance issues were organized. This programme involved representatives from 18 countries: Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, China, Croatia, Georgia, Kazakhstan, Kosovo, Macedonia, Moldova, Mongolia, Montenegro, Serbia, Turkey, Uzbekistan and Vietnam.

Ministry of Finance Technical Assistance programme covers primarily following topics:

- Management & Control of Public Finance (budgetary processes, management of state debt and financial assets management, etc.)
- Tax and customs issues (legislation, methodology, administration, international administrative cooperation, tax evasion, fraudulent activities, etc.)
- Regulation and methodology of Public and Private sector Partnership projects (PPP)
- Protection of investments (possible financial implications / threat of arbitration)
- Financial markets and financial services (legislation, regulation & supervision issues)
- Money laundering and terrorism financing counter measures
- European integration - implementation EC / EU acquis
- Management and control of EU pre-accession and structural funds
- International financial institutions (IFIs) and Development Cooperation (bilateral and multilateral,
- ODA, EU programmes, etc.)[10]

On exceptional basis, technical cooperation is executed also by other state institutions of the Czech Republic. Currently, The Czech Office for Standards, Metrology and Testing implements a project in Mongolia aimed at improving its standards of precise frequency and time and setting a basic national standard for measuring of length.

Infrastructure development

Infrastructure development is a traditional focus of the Czech ODA. Many of the activities are focused on social infrastructure development, water supply and sanitation. This area accounted for 24 per cent of funds

[10] Source: http://www.mfcr.cz/cps/rde/xbcr/mfcr/TA-ZRS_leaflet_Dec-2012_pdf.pdf

disbursed in bilateral ODA projects in 2011. Czech assistance focuses on provision of potable water supply to inhabitants, sanitation, reconstruction of water treatment plants and removal of old environmental damages.

The economic infrastructure development focuses especially on energy sector, which accounted for 7 per cent of bilateral ODA projects funding in 2011. Economic infrastructure development is a priority area for ODA in Bosnia and Herzegovina, Ethiopia and Mongolia. The Czech ODA focuses mainly on renewable sources of energy such as biomass, biogas, thermal springs and solar panels.

4. Bottlenecks and solutions

Overall, the Czech Republic has efficient system of ODA provision and coordination. Much has been done in the recent years for its improvement. The Czech Republic as the first country from Central and Eastern Europe underwent OECD Development Assistance Committee Special Review and implemented most of the recommendations provided therein. Czech Development Agency was set up, thus improving coherence in programming and implementation of the development cooperation and limiting the fragmentation of ODA provision. The Czech government has adopted clear development cooperation strategy for the period of 2010-2017, which goes in line with the trends in established development cooperation providers. It reduces number of recipient countries thus enabling better focus and achieving higher impact of the provided aid. It also defines sectorial priorities, where the Czech experience is most valuable (political, economic and social transition, integration to the EU) and where the Czech subjects have extensive know-how such as water management, agriculture, healthcare and energy.

On the contrary, the Czech Republic currently fails to meet its international commitments in respect to the ODA/GNI ratio. This is to a large part attributable to the economic crisis and the consequent austerity measures that particularly the Czech government in power since 2010 has been eager to implement. On the other hand this problem is not unique for the Czech Republic, but it is common for many other EU member states, particularly the ones from Central and Eastern Europe. Nevertheless, the Czech government should adhere to the commitment articulated in the Development Co-operation Strategy which counts on a 0.01 per cent increase of the ODA/GNI ratio so that its international commitments could realistically be met at least in a mid-term horizon.

When it comes to Aid for Trade, certain problems were identified. Firstly, the programme lacks an overall strategy which would define more clearly its objectives, priorities and type of supported activities and projects. Secondly, the programme does not fall within the remit of Czech Development Agency, but remains managed by the Ministry of Industry and Trade, which poses challenges of co-ordination in respect to the overall Czech development cooperation. Thirdly, its very limited budget, currently amounting to about 300.000 USD, cannot realistically contribute to a meaningful integration of the recipient countries into the international trade. Fourthly, many of projects supported by this scheme are not directed towards increasing the recipient countries´ capacity to get involved into international trade. Even if they comply with the broader definition of Aid for Trade, it is often difficult to discern the difference of projects supported by this programme from typical development cooperation projects implemented or financed by the Czech Development Agency. Finally, the programme lacks broader publicity and is virtually unknown in the Czech business community. The ensuing recommendation would thus be to adopt a national Aid for Trade strategy which would address the main criticism raised herein and implement it properly.

As far as the trade regimes with the recipient countries are concerned, not much can be achieved by the Czech Republic at the national level, since this area is fully within the competence of the EU. Thus the only way for the Czech Republic to influence the trade regimes with these countries remains working through the EU structures and institutions. This can, however, represent also an advantage in a sense that the EU disposes with greater negotiating power vis-à-vis these countries. This fact thus does not seem to be yet realized by many Czech companies that could potentially be interested in developing trade relations with a particular country.

The research undertaken does not seem to show a strong correlation between the provision of development assistance and a trade turnover with a given country. Moreover, in many cases substantial part of bilateral trade exchange is directly linked to the aid provided. Programme countries of the Czech ODA remain absolutely marginal with regard to the total volume of the Czech foreign trade. Among ODA recipient countries, Serbia, Vietnam and Ethiopia have been identified as priority countries in the new export strategy of the Czech Republic. From a long term perspective, one can imagine that the presence of Czech companies in the recipient countries can lead to more intensive economic relations, including increasing volumes of trade. This would, however, assume further efforts leading to development of follow-up commercial projects beyond the ODA activities, which often terminate as one-off efforts.

Another important challenge for the Czech export is the framework of its financing, particularly in comparison with larger EU member states and given the importance of trade in the Czech economy. Czech Export Bank and Export Guarantee and Insurance Corporation dispose with limited budget that does not allow for financing of a large number of new projects in developing countries. Moreover, these institutions do not specialize in export support in the priority countries of the Czech development cooperation. The Czech Republic lacks a specialized institution such as development bank that can be found in many other developed countries. By creating such an institution, a possible missing link between development cooperation and increase of trade and investment volumes in recipient countries. For instance, such development bank could provide start-up capital for the companies in the recipient countries which could attract more Czech investors at a later stage. It could likewise finance follow-up activities of the ODA projects by providing loans or capital.

Compared to other Central and Eastern European countries, the Czech Republic disposes with a rather sophisticated and well-established system of export support. The only visible shortcoming is the fragmentation of the Czech economic diplomacy in third countries. The multitude of different agencies such as CzechTrade, CzechInvest, the Czech Centres and commercial sections by the embassies makes it sometimes rather difficult for the Czech as well as third country companies to understand which agency is the best to address. It also complicates the exchange of information among this agencies and leads to scatterdness of know how and expertise on business opportunities in the given territory. However, the first steps in this direction were already taken by fusing the CzechTrade and CzechInvest representations. Further simplification and unification of the economic representation would therefore be next logical step.

Establishment of closer trade ties with many of the ODA recipient countries is also hampered by their internal problems. They often have rather unstable entrepreneurial environment, including cumbersome bureaucratic procedures, widespread corruption and nepotism, business legislation susceptible to frequent changes, etc. Addressing these challenges could be one of the key priorities of the Aid for Trade strategy when it is adopted.

It is rather difficult for small and medium sized Czech companies to penetrate ODA recipient markets, unless they establish a representation in a given territory, which is financially burdensome. In this respect, it opens a question whether the Czech official representation in a given country could do more in terms of providing support to such SMEs for instance by providing initial representation before such branch is set up or providing premises for start-up activity.

The volumes of trade between the Czech Republic and most of the ODA recipient countries (especially the developing ones) are likely to remain quite low in comparison with the trade and investment with developed countries. Possible exception is represented by those recipient countries that are also included in the new export strategy, due to their growth potential and presumably higher compatibility with the Czech economy. This, however, does not preclude making use of the outcomes of development co-operation projects to a much larger extent than is the case at the moment. The operation of Czech companies in such projects, the reputation they establish in these countries and the contacts they acquire could lead to establishment of closer economic ties, including the development of trade relations or creation of investment opportunities.

This would inversely contribute to the fulfilment of the Millennium Development Goals, and thus to one of the main objectives of the Czech development assistance.

Appendix 1.

Priority countries with a cooperation programme	Sectors
Afghanistan	Environment Agriculture Economic development (including energy)
Bosnia and Herzegovina	Environment Economic development (including energy) Social development (including education, social and health services) Agriculture
Ethiopia	Environment Social development (including education, social and health services) Agriculture
Moldova	Environment Social development (including education, social and health services) Agriculture
Mongolia	Environment Agriculture Social development (including education, social and health services) Economic development (including energy)

Source: Development Cooperation Strategy 2010-2017

Appendix 2.

Bilateral ODA	Current Prices (USD millions)				
Year	2007	2008	2009	2010	2011
Sector					
I. Social Infrastructure & Services	33,63	71,02	51,03	40,11	38,26
I.1. Education	9,41	11,23	8,41	10,23	7,66
I.1.b. Basic Education	0,69	1,53	..	1,77	0,75
I.2. Health	1,52	3,45	5,91	2,29	2,79
I.2.b. Basic Health	..	..	..	0,16	0,91
I.3. Population Pol./Progr. & Reproductive Health	0,29	..	..	0,52	0,38
I.4. Water Supply & Sanitation	3,34	5,89	6,25	6,94	8,09
I.5. Government & Civil Society	16,61	46,06	27,43	17,32	15,94
I.5.a. Government & Civil Society-general	3,2	5,43	2,13	7,17	8,39
I.5.b. Conflict, Peace & Security	13,41	40,63	25,3	10,15	7,56
I.6. Other Social Infrastructure & Services	2,46	4,39	3,03	2,82	3,39
II. Economic Infrastructure & Services	2,84	8,28	4,59	2,72	5,65
II.1. Transport & Storage	0,87	0,99	2,94	0,5	1,24
II.2. Communications	0,05	0,18	0,06	0,09	0,02
II.3. Energy	1,88	6,77	1,54	2	3,75
II.4. Banking & Financial Services	0,04	..	..	0,04	0,04
II.5. Business & Other Services	..	0,34	0,05	0,07	0,59
III. Production Sectors	6,57	9,46	8,15	7,61	6,56
III.1. Agriculture, Forestry, Fishing	3,48	4,86	4,6	4,86	5,77
III.2. Industry, Mining, Construction	2,92	4,51	3,48	2,54	0,71
III.3.a. Trade Policies & Regulations	0,17	0,07	0,07	0,2	..
III.3.b. Tourism	..	0,02	..	0,01	0,08
IV. Multi-Sector / Cross-Cutting	5,24	2,91	2,41	2,17	2,57
V. Total Sector Allocable (I+II+III+IV)	48,28	91,67	66,17	52,61	53,04
VI. Commodity Aid / General Prog. Ass.	..	..	0,03	0,37	..
VI.1. General Budget Support	..	..	..	0,37	..
VI.2. Dev. Food Aid/Food Security Ass.	..	..	0,03	..	..
VII. Action Relating to Debt	11,33	1,2	3,07	..	..
VIII. Humanitarian Aid	5,41	5,09	4,41	7,03	3,97
IX. Unallocated / Unspecified	15,93	19,18	27,35	19,36	19,94
Total (V+VI+VII+VIII+IX)	**80,95**	**117,14**	**101,03**	**79,37**	**76,95**

Source: OECD Stat Extracts

ESTONIA

1. Introduction

The aim of this paper is to present Estonia's national development assistance policy and to analyse the development of bilateral trade with Estonia's priority official development assistance (ODA) recipient countries under the applied trade regimes and trade agreements as a powerful engine for economic growth, poverty reduction and sustainable development. Estonian bilateral development assistance is analysed in terms of its impact on aid for trade and effectiveness. Bottlenecks to development assistance are identified and corresponding solutions highlighted. Policy recommendations for different stakeholder representatives are provided.

This paper is based on the findings of research on the role of trade in development effectiveness as part of the project activities within the framework of the European Commission project entitled: *Update of the current status of implementation of international/bilateral trade regimes with ODA recipients and the current role of civil society and private sectors as development actors in the new EU Member states*.

This paper is organised as follows: the first section gives an overview of Estonia's national development assistance policy and the description of the methodology for this study. Thereafter, section 2 outlines the state of bilateral trade an applied trade regimes. This is followed by section 3 which focuses on other trade related activities, including investments. Section 4 presents the bottlenecks to development assistance and corresponding solutions. Finally, the conclusions and policy recommendations will be presented.

1.1. Presentation of national development assistance policy

Development cooperation policy in Estonia stretches back to 1998, when as part of accession negotiations with the EU development cooperation was first planned and initial projects were implemented. Around €353,000 was provided for the first voluntary donations to UNICEF and the International Committee of the Red Cross (ICRC) as well as delivering emergency aid to the flood-affected regions of Eastern Europe (Ministry of Foreign Affairs, 1999). The following year Estonia started reporting annually to the OECD Development Assistance Committee (DAC). Since then, Estonia has systematically engaged in providing development assistance to developing countries as an increasingly important foreign policy instrument.

The Government of the Republic Act (Riigikogu, 1995) and the Foreign Relations Act (Riigikogu, 2006) specify the mechanisms of granting development aid in greater detail and the leading role of the Ministry of Finance in planning and implementing development cooperation and in coordinating the respective policy. According to the Foreign Relations Act, the Ministry of Foreign Affairs (MFA) presides at the Development

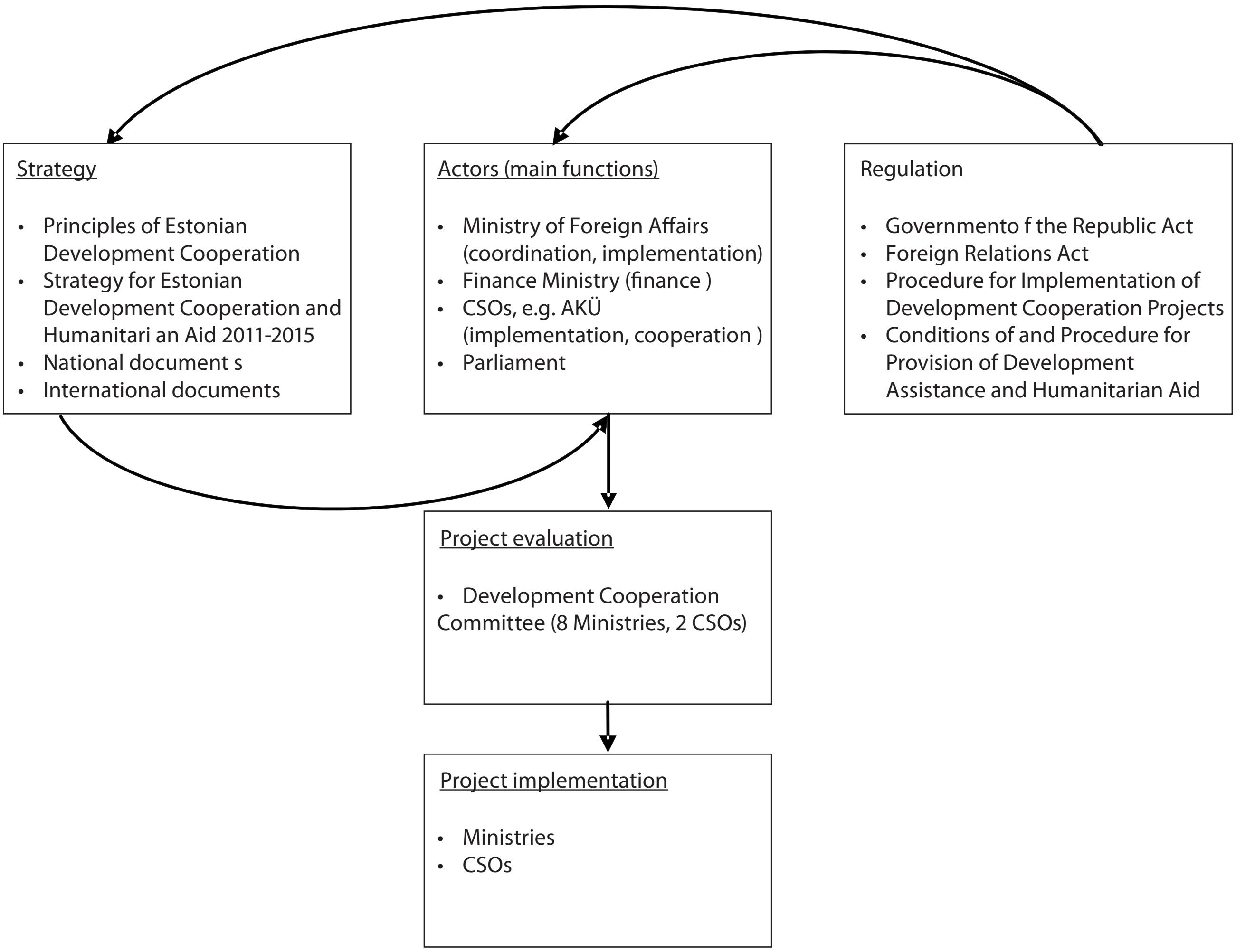
Cooperation Committee[1], whose function is to approve bilateral development cooperation projects, supervise their implementation and ensure their high quality; the usefulness and impact as well as technical feasibility of the projects is assessed by the committee. After adoption of the Government of the Republic regulation "Conditions of and Procedure for Provision of Development Assistance and Humanitarian Aid" (Riigikogu, 2013) the implementation of bilateral development cooperation has become more planned and the financing conditions have become clearer. The Conditions of and Procedure for Provision of Development Assistance and Humanitarian Aid provides for organisation of application rounds for finding projects, more detailed terms and conditions of granting aid, limits of aid and self-financing, establishes project assessment criteria, etc. Until the adoption of the regulation, the involvement of non-state actors in the implementation of development cooperation was relatively limited because the grant application procedures were perceived to be ambiguous and based on ad hoc decisions in the MFA (Andrespok & Kasekamp, 2012).

The policy "Principles of Development Cooperation for the Years 1999-2000" (Riigikogu, 1999) was the first document to outline the Estonian stance towards development cooperation. This was subsequently replaced by the "Principles of Estonian Development Cooperation", which was approved by the Riigikogu (Parliament) on 15 January 2003 (Riigikogu, 2003). The document specifies the common goals and priorities of Estonian development cooperation – continuous support for countries and regions striving to achieve consistent economic and social development – and the forms of implementing development cooperation.

In January 2010, the Estonian Government approved another key document, the Strategy for Estonian Development Cooperation and Humanitarian Aid 2011-2015 (Ministry of Foreign Affairs, 2010). It was drawn-up on the basis of the previous strategy for 2006-2010 (Ministry of Foreign Affairs, 2006) and lessons learned from its implementation.

[1] The Development Cooperation Committee is comprised of at least ten members: representatives of ministries (the Ministry of Education and Research, Ministry of Justice, Ministry of the Environment, Ministry of Economic Affairs and Communications, Ministry of Agriculture, Ministry of Finance, Ministry of the Interior and Ministry of Foreign Affairs), and at least two representatives of civil society. The committee may also involve representatives of other institutions as well as other independent experts in the work of the committee (Riigikogu, 2013).

Figure 1. Estonian bilateral development cooperation framework



Source: Author's compilation

At state level there are many actors involved in the coordination of development cooperation, the chief one being the MFA, which is responsible for the strategic planning, implementation and coordinating the activities of different participants of Estonian development cooperation. As such, it has a range of functions, such as:

- jointly with other institutions and organisations, drafting the directions of development cooperation and the Strategy, draws up and submits to the Government of the Republic the Estonian Development Cooperation Implementation Plan on the basis of the goals established in the Strategy for Estonian Development Cooperation and Humanitarian Aid 2011-2015;
- holding an active political dialogue with the partner countries; based on the needs and priorities of the partner country and Estonia's resources, agreed on specific areas of cooperation;
- representing Estonia and its positions on development cooperation at the international level, including in the international organisations falling within the area of responsibility of the MFA as well as in forums and in the media;
- assessing the situation and, if necessary, upgrade the system of implementing bilateral development cooperation;

- communicating with other donors both at the partner country level as well as internationally and prepares bilateral or multilateral cooperation projects with other donors;
- informing relevant institutions, ministries and state authorities, civil associations and the private sector and involves them in the implementation of development cooperation (Ministry of Foreign Affairs, 2010).

Estonian civil society organisations (CSOs), represented by an umbrella organisation, the Estonian Roundtable for Development Cooperation (AKÜ),[2] collaborate with the various ministries and local authorities to help draft, renew and implement the Strategy for Estonian Development Cooperation and Humanitarian Aid. Indeed, there is very close relationship between AKÜ and the MFA's Development Cooperation Division: there is permanent informal contact and common planning of activities (Trialog, 2007, p. 6).

Despite this formal administrative structure and procedure, some actors feel that the reality does not reflect this, and furthermore that the MFA is not the leading and coordinating institution, but rather leads its own projects while other institutions undertake their own projects with little cross-communication and cooperation between the agencies. As such there would certainly be room for further development.

In line with the Estonian strategies for development cooperation, a limited number of priority partner countries have been specified. Estonian bilateral development cooperation is primarily aimed at countries to which Estonia can offer added value relying on its own experiences and which are ready to move towards a democratic society built on human rights (Ministry of Foreign Affairs, 2010). Consequently, during the 2006-2010 programming period Afghanistan, Georgia, Moldova and Ukraine were chosen as priority countries, whilst Armenia, Azerbaijan and Belarus were added during the 2011-2015 period. Besides these countries, Estonia is cooperating with other developing countries and partners interested in Estonia's experience in some particular area. The choice of priority partner countries was discussed and agreed on amongst Estonian development cooperation stakeholders, including the representatives of civil society. The final list of partner countries was approved by the Estonian Government.

Such partners were chosen for a number of reasons. Officially, such countries were selected firstly to ensure that limited financial resources for development cooperation would bring about the highest possible added value in the benefiting countries. Estonia was (and still is) a relatively new donor country. Hence, the idea was to rely on Estonia's own reform and transition experience and contribute to the reforms of the partner countries, as much as possible and taking into account the lessons learnt from Estonia's own similar processes in the past. Secondly, according to the different international agreements of aid effectiveness, Estonia wished to keep the circle of partner countries as limited as possible to ensure higher concentration of its contributions in that area. Cooperating with the same partner countries over a longer period of time serves the same objective – aid effectiveness. Thirdly, such partner countries allow building synergies between Estonia's bilateral donor activities and the work it does in different EU working groups, e.g. in the context of EU development policy and the European Neighbourhood Policy (ENP). In the case of Afghanistan, the rationale behind cooperation is the need to add the civil reconstruction component to the military contribution Estonia is making in the context of the coalition forces based there (Development Cooperation division of the Ministry of Foreign Affairs, email correspondence).

CSOs and other actors, however, have pointed to other reasons for country choice, such as political expediency (Andrespok, 2010), historical ties and cultural ties.[3] In interview, the Ministry of Agriculture also pointed out that the fact that the priority countries are all small countries (similar to Estonia) and with predominantly agrarian-based economies and a similar historical background, being part of the USSR. Therefore, Estonians understand and are familiar with the systems of hierarchy and corruption that play a large role in these developing countries. In any case, when joining the EU and NATO in 2004 Estonia found itself in a policy dilemma: on the one hand aligning itself with the western donor community and being

[2] http://www.terveilm.ee

[3] As such, this accords with the four principles on which Estonian development assistance is based, according to the Principles of Estonian Development Cooperation: political, economic, moral and historical (Riigikogu, 2003).

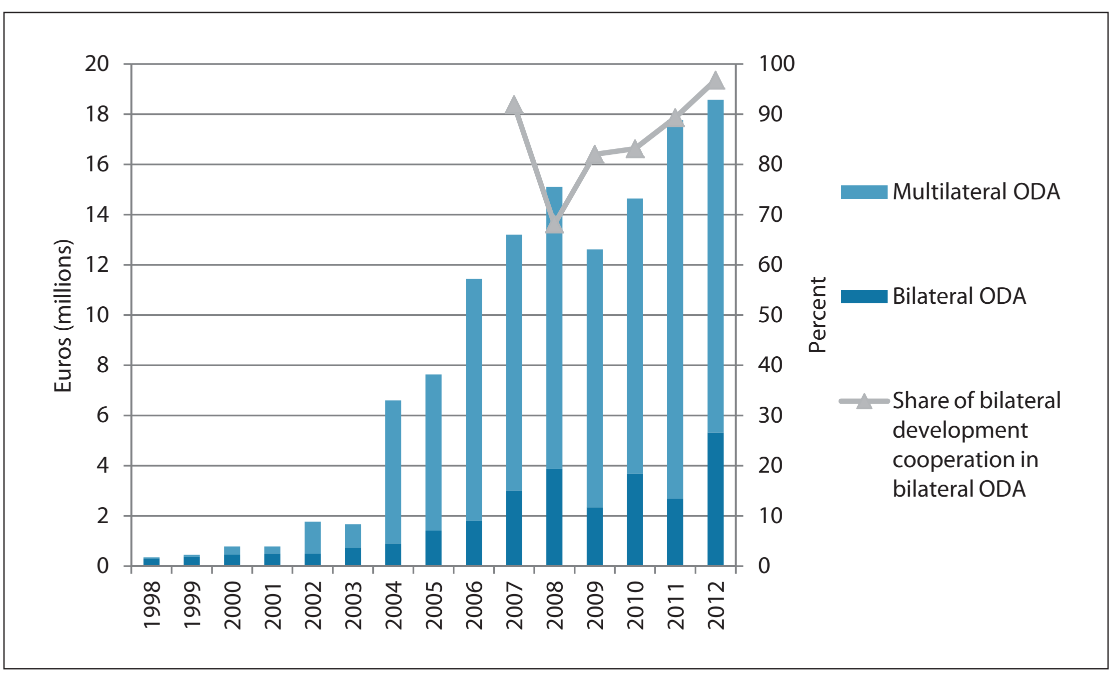
expected to participate in community's efforts as the world's biggest donor, and on the other hand wanting to build up its own bilateral relations with its chosen partner countries, and trying to seek unique expertise or competence in the field (Kuusik, 2006).

1.2. Current level of official development assistance

During the socialist period, there was limited support for development assistance by Estonia.[4] As part of the USSR, the Estonian Soviet Socialist Republic (ESSR) did not engage in development assistance as these functions were not undertaken at republic level but rather at the superordinate state level.[5] Nevertheless, the ESSR provided some humanitarian assistance to other Soviet republics; most notably for the 1986 Chernobyl nuclear reactor disaster and the 1988 Armenian earthquake. The ESSR also had strong ties in helping support development Azerbaijan and Georgia. However, these were driven more by political reasons rather than altruistic reasons.

The volume of ODA constantly remained at a fairly low level from its first flows in 1998 until 2004 (see figure 2). Since 2004 the MFA has had a separate budget line for development cooperation and humanitarian aid – funds were previously allocated from the Government's financial reserve, which meant that each project had to be approved by the Cabinet (Trialog, 2007). Around the same time the political basis for development cooperation and administrative structures required for implementing legislation and rules had been finalised. These both contributed to a greater volume of disbursements being made. The level of bilateral ODA is much smaller than multilateral ODA, especially since 2004, although this is a consequence and stipulation of joining the EU and other organisations. Furthermore, the share of bilateral development cooperation in total bilateral ODA

Figure 2. Estonian ODA flows, 1998-2012 (euros millions)



Note: The figures for bilateral development cooperation represent the total value of each approved project. However, project durations are typically a few years, with disbursements occurring concomitantly.
Source: (Ministry of Foreign Affairs)

4 In contrast, other Central and East European countries, such as Czechoslovakia, Bulgaria and Romania, provided much aid bilaterally or via the Council for Mutual Economic Assistance (Horký & Lightfoot, 2012).

5 For an overview of USSR aid to developing countries, see for example Kanet (1987) or Bach (2003).

The global financial crisis from 2008 precipitated a downturn in the Estonian economy and a consequent scaling back of funding for development cooperation activities. The lack of political will to deal with development issues was further proven by the fact that the majority of the cuts to the MFA's budget were from the resources allocated to development cooperation and humanitarian aid (Andrespok, 2010, p. 105).[6] Nevertheless, in the long term Estonia has managed to avoid donor fatigue which has affected other Central and East European countries.

In 2010 Estonia achieved the goal established by the Government in May 2005 to raise the development cooperation and humanitarian aid resources to at least 0.1% of the GNI by 2010 (see table 1). In April 2010 the Government set a new goal of achieving the level of at least 0.17% of the GNI by 2015, while still aiming for 0.33% as internationally agreed.

Table 1. Funds allocated for development cooperation and humanitarian aid in the state budget of Estonia through 2010-2015 (Euro million per annum)

	2010	2011	2012	2013	2014	2015
GNI	13,502	14,147	14,850	15,613	16,442	17,026
% of GNI (Government proposal 13.05.2010)*	0.104	0.019	0.143	0.149	0.162	0.176
1. Total official development assistance (development cooperation and humanitarian aid funds)	14.00	16.97	21.31	23.28	26.76	30.06
1.2. Development cooperation funds	11.63	13.74	18.75	19.58	23.13	24.95
1.2.1. Within the budget of the Ministry of Foreign Affairs	3.20	4.03	6.89	8.85	11.64	12.78
1.2.2. of Estonia's payment to EU budget	7.93	6.39	6.77	6.97	6.97	6.97
1.2.3. European Development Fund (EDF)	-	1.66	1.92	1.92	1.92	1.92
1.2.4. International Development Association (IDA)	0.75	0.75	2.00	2.00	2.00	2.00
1.2.5. Other ministries and state institutions	0.89	1.89	2.94	1.09	1.15	1.28
1.3. Humanitarian aid funds	2.36	2.36	2.56	3.13	3.96	4.73
1.3.1. of Estonia's payment to EU budget (18%)	1.41	1.41	1.47	1.53	1.53	1.53
1.3.2. in the budget of Ministry of Foreign Affairs (25% of development cooperation and humanitarian aid funds)	0.96	0.96	1.09	1.60	2.43	3.52

** The percent of the GNI will rise on average by 0.014 percentage points a year.*

Source: (Ministry of Foreign Affairs, 2010)

The financing for Estonian official development aid is mostly undertaken by the Ministry of Finance and the MFA, which together account for over 90% of funding (see table 2). Despite that, a number of state organisations and agencies have contributed to Estonian ODA. Some institutions have continually donated significant amounts, such as the Ministry of Defence (primarily linked to its military activities in Afghanistan) and less so the Ministries of Education and Research, Environment, Social Affairs and Agriculture, whilst others have done so on an ad hoc basis tied to specific projects. Some ministries also have separate budget lines for developmental assistance activities, although these are usually rather modest and not included in the MFA reviews.

[6] The desire to cut funding for development cooperation was also echoed in the public. According to a Eurobarometer survey, 29% of respondents felt that given the current economic situation aid should be reduced to developing countries, one of the highest levels in Europe, and much higher than the EU average (18%). Significantly, this level increased 8 percentage points since the same question was asked in 2011 (Eurobarometer, 2012).

Table 2. Distribution of Estonian ODA by donor, 2006-2011 (euros)

	2006	2007	2008	2009	2010	2011
Association of Estonian Cities	-	-	64,061	-	-	-
Eesti Pank	3,766	1,917	1,840	-	-	-
Association of Municipalities of Estonia	-	15,339	-	-	-	-
Ministry of Education and Research	185,514	131,215	190,670	97,455	43,633	38,049
Ministry of Justice	2,348	-	-	-	-	-
Ministry of Defence	463,693	191,799	166,560	188,196	348,863	377,967
Ministry of the Environment	36,308	47,442	38,013	72,067	175,423	924,274
Estonian Competition Authority	3,180	-	-	-	-	-
Ministry of Culture	7,811	10,336	10,245	20,700	53,664	63,347
Ministry of Economic Affairs and Communication	14,073	12,806	12,841	-	5,195	17,830
Estonian Tax and Customs Board	938	3,546	3,116	961	-	-
Ministry of Agriculture	47,329	47,611	53,224	60,530	64,370	66,675
Ministry of Finance	9,173,069	9,151,792	9,486,128	9,580,606	8,702,655	10,862,485
Government Office	-	-	2,700	3,158	-	-
Riigikogu	65,603	9,840	-	383	-	-
National Audit Office	224	10,482	3,788	639	-	-
Ministry of the Interior	71,693	7,893	16,016	4,493	4,489	13,335
Estonian Academy of Security Services	-	4,005	26,988	2,986	21,219	-
Ministry of Social Affairs	31,270	38,597	79,041	51,473	220,396	252,106
Ministry of Foreign Affairs	1,536,058	2,303,141	5,293,871	3,151,370	4,511,427	4,916,517
Estonian Rescue Board	5,752	-	72,474	19,693	5,151	-
Police and Border Guard Board	-	2,556	-	2,556	3,130	1,848
Tartu City Government	-	-	-	-	6,392	-
TOTAL	**11,648,630**	**11,990,315**	**15,521,575**	**13,257,268**	**14,166,008**	**17,534,433**

Note: Data for 2006-2010 was converted from Estonian kroons to euros on the basis of the official exchange rate: 1 euro = 15.6466 kroons

Source: (Ministry of Foreign Affairs; Ministry of Foreign Affairs, 2011)

1.3. Bilateral trade as a part of development assistance

Bilateral trade has long been recognised as a major mechanism for improving the economic growth and welfare of nations, by generating significant revenue and economic activity. However, the link between trade and development assistance (including poverty eradication) has not been so well defined. The linkage was explicitly stated in the United Nations Millenium Development Goal (MDG) target 8A: to develop further an open, rule-based, predictable, non-discriminatory trading and financial system (United Nations, 2001). The link was again highlighted at the 4th High Level Forum on Aid Effectiveness held in Busan, South Korea in 2011. Paragraphs 9, 10 and 32a of the Busan partnership for effective development co-operation detailed ways in which trade and the private sector could contribute to reducing poverty (OECD, 2011).

The World Trade Organization's (WTO) core business is regulating international trade, reducing market barriers and ensuring a level playing field for all its members (World Trade Organization). However, in order to benefit from the WTO agreements, countries need to develop necessary trade-related skills and infrastructure. One such initiative which targets this is the EU Aid for Trade Strategy (Council of the European Union, 2007), which the EU adopted on 15 October 2007, designed to help developing countries build the necessary capacity to trade, and to more effectively use trade in promoting poverty eradication.

Trade negotiations to achieve a more open rules-based trade can be important tools for development. The aim is that benefits from free and fair trade should be extended to all, especially the poorest, and are an essential vehicle for speeding up progress towards achieving the MDGs, and specifically target 8A. For the maximum effects of trade on poverty reduction, several elements need to work together in synergy: better national development strategies that integrate trade as a key component; increased and effective international financial and technical assistance for developing production and trade capacities; and a more enabling international trade environment (including applied trade regimes).

1.4. Methodology of the study

In order to analyse how Estonia has integrated trade related assistance into its development strategy, different methodological tools were utilised, ranging from the processing of statistical information, focus group discussions, surveys and interviews. The main sources of information used are government documents, statistical information, surveys, focus group feedback and interviews with representatives of both the public sector and private companies.

The time period under consideration is from 1998, when Estonia first started development cooperation, until 2012, although special emphasis will be placed on the period from 2004 onwards when Estonia acceded to the EU.

The country selection underpinning this research is based on the combined outcome of the following four indicators (see table 3). Firstly, the Strategy for Estonian Development Cooperation and Humanitarian Aid 2011-2015 outlines priority partner countries, as noted above. These countries form the core of the country selection list. Secondly, high ranking cumulative total trade (i.e. imports plus export) partners 2004-2012 from developing countries within each continent were chosen. Thirdly, the countries which comprise the largest total net ODA recipients were included. To guard against bias towards humanitarian aid, which are usually ad hoc payments (as in the case of a natural disaster), the cumulative level of ODA for 2004-2011 was taken. This also ensures that countries are selected according to Estonia's long term stance towards development assistance for those countries. Finally, the level of diplomatic relations between each set of countries will be noted as an indicators as to the potential strength of state bilateral development cooperation. The choice of countries was further strengthened by the fact that some countries appear across all three indicators. In total, 15 countries were selected for this research.

During December 2012 a survey was sent out to interested parties connected to development cooperation in Estonia. The survey included 19 questions and was structured according to the following sections: development cooperation, trade relations and cooperation, evaluation of development cooperation and recommendations. In total 34 responses were received, 16 of which were partly filled in. Several interviews were also undertaken with key representatives of the public and private sectors between December 2012 and January 2013.

Table 3. List of countries included in the research

Country	Priority partner	Trade		Official Development Aid		Diplomatic relations		
		Cumulative total trade, 2004-2012 (€)	Trade rank (out of 216)	Cumulative total net ODA, 2004-2011 (€ million)	ODA Rank (out of 46)	Diplomatic ties established	Estonian diplomatic representation in country	Foreign representation in Estonia
Afghanistan	Yes	32,165,970	76	2.89	1	1 July 2005	Special mission (Autumn 2007)	None
Armenia	Yes	7,864,444	107	0.15	17	23 August 1992	Honorary consulate	Honorary consulate
Azerbaijan	Yes	69,325,802	58	0.05	=27	20 April 1992	Ambassador in Ankara	Embassy (2010)
Belarus	Yes	1,764,726,220	18	0.42	=10	6 April 1992	Embassy (January 2009)	Embassy
Bosnia	No	10,725,877	104	0.46	9	8 February 1993	Ambassador in Tallinn (27 September 2005)	Ambassador in Stockholm
Brazil	No	343,097,010	37	n/a	n/a	16 December 1991	None[7]; Honorary consulate	Ambassador in Helsinki (1994)
China	No	3,061,318,110	13	0*	=42	11 September 1991	Embassy (1997)	Embassy (1992)
Egypt	No	191,891,024	42	0.02	=36	2 January 1992	Embassy (1 March 2010)	Ambassador in Helsinki
Georgia	Yes	28,092,883	77	2.54	2	17 June 1992	Embassy (December 2006)	Embassy (April 2007)
India	No	291,180,943	39	0*	=42	2 December 1991	Office in New Delhi (September 1993); Embassy (February 2013)	Ambassador in Helsinki
Kazakhstan	No	659,483,924	31	0.02	=36	27 May 1992	Embassy (2011)	Ambassador in Helsinki, Consular office in Tallinn
Moldova	Yes	55,499,288	63	1.18	3	10 November 1992	Ambassador in Kiev; Honorary consulate (October 2006)	Embassy
Nigeria	No	1,043,930,927	25	n/a	n/a	-	None	None
Turkey	No	1,210,436,353	23	0.14	=18	23 October 1991	Embassy (February 2001)	Embassy (1 October 2001)
Ukraine	Yes	1,753,696,405	19	1.12	4	4 January 1992	Embassy	Embassy

*Note: * = greater than €0 but less than €10,000*

Source: based on (Ministry of Foreign Affairs, 2010; Statistics Estonia; OECD.Stat Extracts); Ministry of Foreign Affairs press releases

2. Current state of bilateral trade and applied trade regimes

Since Estonia's accession to the EU, the level of trade with the countries under consideration in this study has accelerated somewhat. This has been aided by the inclusion of Estonia into EU agreements and the signing of the WTO agreements which facilitate the movement of free trade. Of the priority countries, Estonia trades the most with Ukraine, followed by Belarus (see appendix 1). However, it is evident that the priority countries rank quite low in terms of Estonia's trading partners, with many other countries being more important, such as China, Turkey, Nigeria and Kazakhstan. Furthermore, it would appear that the effects of joining the EU and adoption of development cooperation legislation have not really boosted trade with the priority countries. Indeed, in the case of Armenia, the growth in Estonian trade actually decreased over the period 2004-2012 (see table 4). Estonia significantly exported over €31 million worth of oil to Afghanistan in 2012, which was six times greater than total exports the year before. Imports from priority countries and other developing countries show a similar pattern. There are virtually no imports from Afghanistan and Nigeria.

[7] In January 2013 an agreement was signed stating that an Estonian diplomat would start working at the Portuguese embassy in Brazil in preparations for the eventual opening of an Estonian embassy.

Table 4. Trade orientation and average annual growth rates for Estonian trade with selected partner countries, 2004-2012 (%)

Country	Trade orientation	Export growth	Import growth	Total trade growth
Priority countries	Export	39.6	10.6	33.1
Afghanistan	Export	170.2	-29.4	144.0
Armenia	Export	-3.3	28.3	-1.6
Azerbaijan	Export	24.7	20.0	24.3
Belarus	Import	18.9	10.4	11.7
Georgia	Export	57.1	26.0	39.0
Moldova	Export	9.0	11.1	9.7
Ukraine	Export	0.7	7.8	4.9
Developing countries	Export	38.3	40.6*	35.3*
Bosnia and Herzegovina	Export	69.3	93.1	73.4
Brazil	Export	17.8	13.2	15.4
China	Import	13.9	13.3	13.4
Egypt	Export	12.5	32.2	13.6
India	Export	41.6	24.1	32.3
Kazakhstan	Export/import	39.9	17.4	26.8
Nigeria	Export	90.8	126.4*	91.8
Turkey	Export	20.7	5.1	16.0
All countries	Export	38.9	26.6*	34.3*

*Note: * Estonia had no imports from Nigeria between 2004 and 2006, therefore the calculations for this country for are for the period 2006-2012*
Source: author's calculations based on (Statistics Estonia) data

The structure of Estonian trade with the developing countries is mostly based on comparative advantage, with Estonia exporting much of what it naturally produces and importing much of what it cannot naturally produce. The most common significant Estonian exports to the priority countries are frozen fish, and paints and varnishes. The most common imports to Estonia from the priority countries are undenatured ethyl alcohol, petroleum oils and wine of fresh grapes. In the majority of priority countries (Armenia, Azerbaijan, Belarus, Moldova, Ukraine) and other developing countries (Brazil, China, Egypt, India, Kazakhstan, Nigeria) the commodity structure is such that the value of the top import products is much larger than the second or third product, even when they are summed. Furthermore, with many countries, imports are highly concentrated on only a few products (Afghanistan – 3 products; Armenia – 3 products; Azerbaijan – 5 products, Bosnia – 9 products; Nigeria – 5 products). This might point towards a product specialisation. The other countries exhibit a more evenly spread import structure.

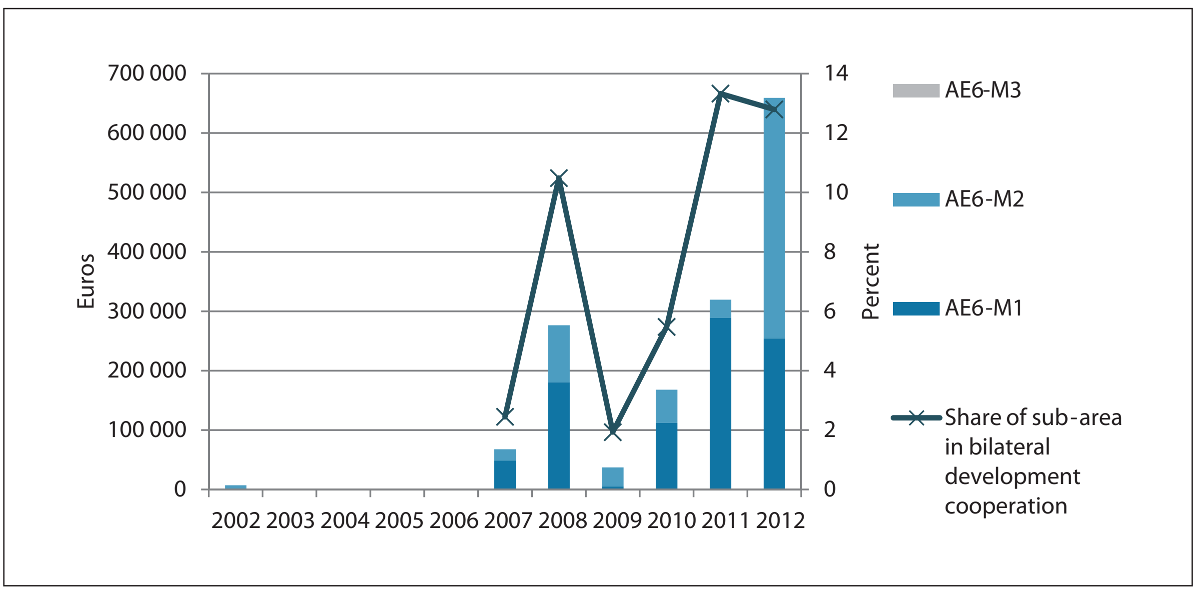
According to the Strategy for Estonian Development Cooperation and Humanitarian Aid 2011-2015 (Ministry of Foreign Affairs, 2010), one of the main sub-areas of Estonian development cooperation is supporting sustainable economic development. Three measures are in operation to achieve this sub-area:

1. Developing co-operation with partner countries – preparing, funding and implementing bilateral projects for reforming institutions of the partner (measure AE6-M1).

2. Supporting multilateral organisations; contributing to the WTO trust funds (measure AE6-M2).
3. Co-operating with other developing countries – supporting the preparation for the WTO accession of developing countries that are prospective members (measure AE6-M3).

In particular, Estonia has supported the convergence of trade legislation in the ENP countries with the EU acquis. However, it is clear that trade supporting bilateral projects are not the most predominant form of development assistance. There were no flows between 1998 and 2002 and also 2003 to 2007. From 2007 onwards flows have increased, despite a dip in 2009 due to the financial crisis (see figure 3). Significantly, there have been no flows under the third measure (supporting the preparation for the WTO accession), although this can be explained that almost all of the countries to which Estonia conducts development cooperation are already members of the WTO. The corresponding share of trade supporting measures in bilateral development cooperation is fairly low but has been steadily increasing, reaching over 12 per cent since 2011.

Figure 3. Disbursements of trade supporting bilateral project measures and share in bilateral development cooperation, 2002-2012 (euros)



Note: The figures for bilateral development cooperation represent the total value of each approved project. However, project durations are typically a few years, with disbursements occurring concomitantly.

Source: (Ministry of Foreign Affairs)

The legal background for the development of bilateral economic relations has been in place for some time. When Estonia acceded to the EU in 2004 it took on the agreements concluded by the EU with third countries. Today, this includes a number of regulations, such as:

- Partnership and Cooperation Agreements (affecting relations with Russia and the CIS countries: Armenia, Azerbaijan, Georgia, Kazakhstan, Moldova and Ukraine) regulating trade relations.
- Deep and Comprehensive Free Trade Area agreements, which have been concluded with Ukraine and negotiations started with Armenia, Georgia and Moldova in early 2012.
- Generalised Scheme of Preferences (GSPs), a mechanism of reduced tariffs for goods to help developing countries export their products to the EU. Through the additional export revenue which is generated, GSP fosters growth in their income and supports economic growth and job creation.

Estonia also fulfils the WTO agreements on trade. However, a consequence of EU accession has been multilateral trade regimes replacing in most part the bilateral trade regimes. Nonetheless, Estonia has signed free trade agreements with a number of countries. Estonia has signed individual bilateral trade and cooperation agreements with most of the priority countries and some other developing countries (see table 5). Most of these agreements were signed before Estonia joined the EU.

Table 5. Selected trade related agreements between Estonia and development assistance countries

Country	Agreement	Date
Azerbaijan	Agreement on co-operation in customs matters	02.03.2000
Belarus	Agreement on Commercial and Economic Relations	30.04.2002
	Agreement on Co-operation and Mutual Assistance in Customs Issues	11.09.2002
China	Agreement on Trade and Economic Co-operation	14.04.1993
Georgia	Agreement on Customs Co-operation and Mutual Assistance	22.08.2000
	Agreement on Customs Co-operation and Mutual Assistance	12.07.2005
India	Agreement on Trade and Economic Co-operation	24.08.2004
Moldova	Agreement on bilateral co-operation between the Tax and Customs Board of the Republic of Estonia and the Customs Service of the Republic of Moldova	10.11.2010
Turkey	Agreement on Trade and Economic Co-operation	15.02.1996
	Agreement regarding Mutual Assistance between Customs Administrations	06.12.1998

Source: based on Ministry of Foreign Affairs webpages

The state agency Enterprise Estonia, which promotes business and regional development in Estonia, provides assistance in promoting exports as part of its activities. It has offices across the world for dealing with trade and investment issues, including one in China. Until recently, it also maintained an office in Kyiv, although this closed down due to restructuring within Enterprise Estonia and a change of focus towards Asian countries instead.

Bilateral economic relations are further strengthened by the presence of supporting political structures. In particular, the Riigikogu has parliamentary groups which are established to intensify bilateral communication with other states and achieve foreign policy objectives.[8] Furthermore, in recent years the Estonian Chamber of Commerce and Industry, the MFA and Enterprise Estonia jointly put together special delegations to go to various CIS countries and open up political and economic (trade and investment) relations as well as cooperation. These delegations are proving invaluable first step for Estonian businesses to do business in otherwise closed markets. As part of this drive, in 2009 the Estonian Business Association of Ukraine (EBAU), was set up by businesses and individuals to advance and develop economic and trade relations among Estonian and Ukrainian business associations, companies and individuals that are based on the interests of the members and correspond with the legislation and norms of Estonia and Ukraine. Unfortunately, the unstable political climate in Ukraine led to many members suspending their membership, as they decreased or ended their business in Ukraine. So far, this seems to be the only example of Estonia setting up a chamber of commerce in a priority country or developing country.[9] Hence, there is still room for development.

8 It should be noted though that there are no Estonia-Brazil, Estonia-Egypt or Estonia-Nigeria parliamentary working groups.

9 It should be noted that Estonia only has business associations in Latvia, Lithuania, Sweden, UK and USA.

3. Other trade related activities in recipient countries

3.1. Investments

There has been a limited amount of foreign direct investment (FDI) by Estonia into the countries under consideration in this study. The majority of investments have been into Estonia's priority countries, although only the Ukraine and Belarus have experienced significant investment flows, predominantly since 2005 onwards (see table 6). It is notable that Estonia has also experienced high trade intensity with these countries. Estonian investments in other priority countries are virtually non-existent, such as Afghanistan (due to security risks), as well as Armenia. This lack of investment is not confined to the priority countries – there have been no Estonian investments in Bosnia or Nigeria, although equally there are also some exceptions such as Kazakhstan and Brazil. Other countries, such as Georgia, saw a rush for investment before legislation had been made protecting bilateral investments or the implementation of the Lisbon Treaty.

In interviews, private sector representatives gave one cause for the lack of investment as being the hesitance to invest in countries which are deemed to have high risks of potential loss of money. This stems partly from negative personal experiences in investing in these countries.

Of the investments made, much of it has been into specific sectors, with the intention to invest speculatively in projects which would return a high profit (see table 7). Consequently, most countries have invested in real estate, professional, scientific and technical activities, and wholesale and retail trade, although there are still some country specific investment patterns.

Table 6. Estonian outward FDI stock in selected countries, 1998-2011 (million euros)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Afghanistan	-	-	-	-	-	-	-	-	-	-	x	x	x	-
Armenia	-	-	-	-	-	-	-	-	-	-	x	-	-	x
Azerbaijan	-	-	-	-	-	-	-	x	0.2	14.2	20.2	3.8	3.7	3.3
Belarus	0.2	0.3	0.1	0.1	0.1	0.3	2.0	31.8	52.0	62.0	50.5	61.6	82.7	75.0
Brazil	-	-	-	-	-	-	-	-	-	0.6	0.6	7.0	4.2	5.8
China	-	-	-	-	-	-	-	x	0.3	5	4.7	4.7	0.5	2.2
Egypt	-	-	-	-	-	-	x	x	0.2	0.4	0.9	0.1	0.1	x
Georgia	-	-	-	-	-	-	x	x	0.4	2.0	2.0	2.4	2.1	2.0
India	-	-	-	-	-	-	-	-	-	-	-	x	x	0.1
Kazakhstan	-	-	-	-	x	x	3.6	0.3	0.4	0.7	1.7	1.1	3.0	8.1
Moldova	-	-	-	-	-	-	x	x	x	x	0.2	2.7	6.1	8.1
Turkey	-	-	-	-	-	-	-	0.3	1.2	1.8	2.5	2.4	2.3	2.0
Ukraine	5.2	5.8	5	6.9	12.4	21.8	28.2	56.8	66.2	108.1	190.6	177.6	148.8	190.2

Note: - = no investment made; x = confidential data (1 or 2 enterprises)
Source: (Eesti Pank)

Table 7. Estonian outward FDI stock in selected countries by sector, 2010 (million euros)

	AFG	AZB	BEL	BRA	CHN	EGY	GEO	IND	KAZ	MOL	TUR	UKR
Agriculture, forestry and fishing	-	-	-	-	-	-	-	-	-	-	-	x
Manufacturing	-	-	x	-	x	-	-	-	-	-	-	6.6
Water supply; sewerage, waste management and remediation activities	-	-	-	-	-	-	-	-	-	-	-	x
Construction	-	-	0.4	-	-	-	-	-	-	x	-	12.8
Wholesale and retail trade; repair of motor vehicles and motorcycles	-	x	17.2	-	-	x	x	-	0.1	x	x	33.9
Transportation and storage	-	-	0.2	-	-	x	x	-	-	-	-	9.2
Information and communication	-	x	x	-	-	-	-	-	-	x	-	1.8
Financial and insurance activities	x	-	1.1	x	-	-	-	-	x	x	-	68.8
Real estate activities	-	x	0.4	x	x	-0.2	0.3	x	x	x	1.8	3.7
Professional, scientific and technical activities	-	x	37.1	-	x	x	x	x	x	x	-	1.8
Administrative and support service activities	-	x	-	-	-	-	-	-	x	-	-	0.8
Education	-	-	-	-	-	-	-	-	-	-	-	x
Activities of households as employers; undifferentiated goods and services producing activities of households for own use	-	-	x	-	-	-	-	-	-	-	x	x
Not classified	-	-	x	-	-	-	x	-	-	-	-	x

Note: AFG = Afghanistan; AZB = Azerbaijan; BEL = Belarus; BRA = Brazil; CHN = China; EGY = Egypt; GEO = Georgia; IND = India; KAZ = Kazakhstan; MOL = Moldova; TUR = Turkey; UKR = Ukraine; - = no investment made; x = confidential data (1 or 2 enterprises)
Source: (Eesti Pank)

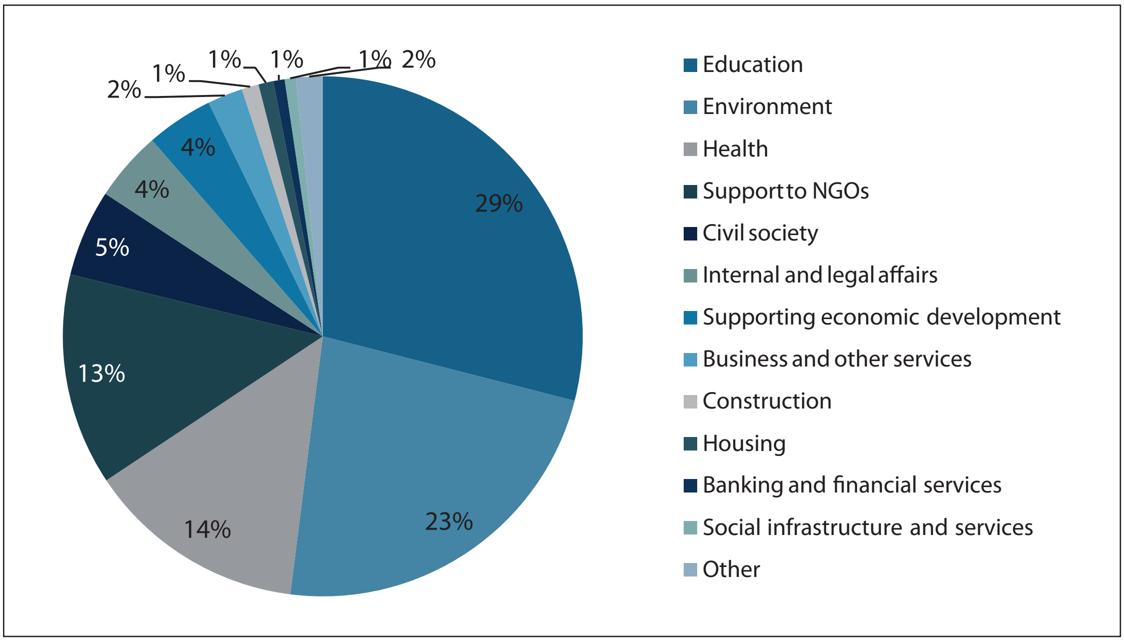
3.2. Infrastructure development

In Estonia, the desire to share transition experiences was one of the driving factors behind the support for development assistance. This is not unique to Estonia. Indeed, it has been a part of official EU discourse since the 2004 enlargement, enshrined for example in Article 33 of the European Consensus on Development: 'the EU will capitalise on new Member States' experience (such as transition management) and help strengthen the role of these countries as new donors' (Horký, 2012). However, in addition to sharing its experience of transition, Estonia has also emphasised its wish to use its experience of development assistance cooperation in Georgia, Ukraine, Moldova and Afghanistan to help other developing countries (Praxis, 2007).

Much of the form this knowledge sharing has taken has been through infrastructure development directed towards public administration reform and environmental protection, privatisation and EU integration, ICT and civil society support (see also figure 4). Of these, perhaps the most successful development has been the e-Governance Academy. Started as a pilot in 2002, this organisation aims to create and transfer knowledge concerning e-governance, e-democracy and the development of civil society. To date it has shared its experience with many developing and priority countries.

Equally, there has also been much development cooperation in projects related to the environment. For example, in 2012 the Ministry of Environment donated over €1.6 million to the United Nations Environment Programme for Strengthening Climate Change Adaption in Rural Communities for Agriculture and Environmental Management in Afghanistan within the UNEP project Environmental Cooperation for Peace building-Phase III.

Figure 4. Share of infrastructural projects in bilateral development cooperation, 1998-2012



Source: Author's calculations based on (Ministry of Foreign Affairs)

3.3. Technical assistance for trade policy development

Estonia has based its technical assistance on the interests and development strategies of its partner countries, but there is no concrete mechanism for coordinating this assistance with the partners or other international donors. Furthermore, most of Estonia's technical assistance is short-term and not based on the long-term bilateral agreements, which are considered as critical prerequisites for aid effectiveness. Consequently, it has been put forward that technical assistance should be decreased while its effectiveness increased (Andrespok, 2010, p. 120).

The survey found that only a few respondents are involved in offering technical assistance in trade agreements (15%); a much larger number are, however, involved in trade facilitation, developing bilateral trade agreements and developing multilateral trade agreements (each 27%). This would seem to point to an area in which more could be achieved.

4. Bottlenecks and solutions

4.1. Assessment of the effectiveness of bilateral economic relations and the consistency of national policies to the upholding of an open, equitable, rule-based, predictable and non-discriminatory bilateral trading systems with ODA recipients

Although the Estonian system of development assistance is fairly well structured and regulated, the efforts to strengthen trade relations have shown some weaknesses which should be addressed.

Better coordination and cooperation between Estonian ministries and other development assistance agencies would make the situation clearer to all parties and would help to bring in new people, institutions and cooperation projects.[10] In other words, more information should be available. Furthermore, contacts of who does what and where should be collected and updated regularly.

[10] This is a wider problem in the sphere of CEE development assistance. The understanding of development aid by other members of the cabinet might be diametrically different from that of MFA officials, not to mention the CSOs, among which the understanding of aid as charity is still widespread, making policy coherence for development almost irrelevant (Horký & Lightfoot, 2012).

It is often larger, wealthier countries which can provide more extras to development countries as they have the power to influence international organisations (EU, OSCE, World Bank, IMF, etc.), to grant funds for their private sector companies to get better trade opportunities and to undertake development assistance projects in recipient countries. In other words, private sector companies and the public sector work together to lobby for their own good. Even if Estonian diplomatic relations and the political elite have done everything in their power to foster bilateral cooperation in development assistance and business, the results have not been as fruitful as wished, due to the relative lack of lobbying power, resources and personnel. There are no Estonian lobbying groups in any international organisations and there is a lack of personnel to actually execute any large projects. Therefore, this is outsourced to other parties to ensure the project is won. In comparison, for example, USA's companies are large enough to show (at least on paper) that they have sufficient personnel to undertake the project, however, in reality they often outsource as well. These two points are important in getting internationally funded projects, as well as recipient country's public sector procurement projects.

It should be noted though that the effectiveness of the bilateral economic relations does also depend on the partner receiving the assistance. For example, Estonia conducts a lot of trade and development assistance with Georgia, although Estonian officials noted during interviews that the Georgians are not too keen on Estonian paperwork, which they view as overly excessive and bureaucratic. Consequently, Estonian officials are not the favourite partners in Georgia, despite their projects being considered very effective.

4.2. Problems coming from the applied trade regimes

Survey respondents found that the main problems concerning bilateral trade relations with priority recipient development aid countries come from customs procedures (29% of respondents). Although this is an Estonian problem, in effect it is also a problem for other EU countries, given all directives stem from the EU. Indeed, the survey respondents also raised the problem that the EU has been slow to develop trade relations with Estonia's priority (i.e. the Eastern Partnership) countries. The least problematic aspect of relations concerned the tariff measures, which is to be expected.

At the same time, the largest non-tariff barriers mentioned by the majority of survey respondents were administrative and bureaucratic delays at the entrance (32%), followed by quotas as well as standards (both 18%). Foreign exchange restrictions and controls were not considered a problem.

In interview, officials from the Ministry of Agriculture reinforced the point about delays at borders, stating their concerns about time sensitive goods (such as perishable agricultural produce) needing low customs impediments, which is often not the case in the priority countries. Procedural delays such as customs clearance and cargo handling often cause unnecessary problems.

4.3. Problems in bilateral economic relations

One of the main criticisms that Estonian CSOs have with Estonian bilateral economic relations is that they are being driven primarily by foreign policy agendas. For example, after the 2008 war between Russia and Georgia, Estonia significantly increased its development assistance to Georgia and gave a notable amount of humanitarian aid. Moreover, one can also observe the increases of development activities in Afghanistan in 2009 when both the Estonians and the international community at large started expressing discontent with military actions there (Andrespok, 2010, p. 106).

Another criticism levelled by several Estonian CSOs has been the unwillingness of the country to allocate the largest part of ODA to the least developed regions, primarily Sub-Saharan Africa (Andrespok, 2010; Andrespok & Kasekamp, 2012). Despite this, the 2011-2015 Strategy states that it aims to develop bilateral cooperation with this region in the future (Ministry of Foreign Affairs, 2010, p. 19). As far back as 2008, an MFA survey found that general public opinion was overwhelmingly for Estonia rendering more development assistance to Africa (48% of respondents) rather than the CIS (20% of respondents), although for opinion leaders the CIS was a larger priority (73%) compared to Africa (40%) (Ministry of Foreign Affairs, 2008).[11] Thus, it would appear that the policy makers' views are at odds with CSOs and the general public as to where the development assistance should be directed.

The official mechanism for financing development assistance has also been criticised by various CSOs and policy makers for being available only through the MFA and always based on short-term projects. Therefore, projects with a duration of only one year are usually insufficient in terms of aims and objectives and can undermine the effectiveness of CSOs and other active participants involved in the projects. It would be better to engage in more long term projects, with which better development results could be achieved.

Besides the issues related to development assistance allocation, the overwhelming majority of survey respondents indicated the significant problem of too little (or no) public articulation and campaigning of development cooperation and aid for trade activities (41%). It should be noted that the problem of awareness raising is not confined solely to the public sector.

Crucially, although there are some issues with the national system for development assistance, a significant problem is found with funding from multilateral institutions. Estonia does not have World Bank backing for project financing. The World Bank always chooses companies from other developed countries such as the USA for projects. It has been reported that Georgia favours Estonia to undertake certain projects, although the World Bank overrides such decisions, saying that the USA should do it as Estonia does not have the capacity to undertake the projects.

4.4. Suggestions for decisions

Survey respondents gave several suggestions for improving the position of development cooperation in Estonia. The main suggestions involved the other development actors – the CSOs and the private sector representatives. Indeed, the survey found that respondents consider both the CSO and private sectors to be very important in the formation of developmental aid issues in Estonia (32% and 44% respectively), although importantly respondents mostly consider that CSOs and the private sector have only partly been involved in the planning of development aid and aid for trade programmes. Therefore, both better (i.e. more constructive) input and more public information about the input of these actors would be the greatest contribution. Furthermore, survey respondents feel that the Estonian media could play a larger role in publishing more success stories of companies which are involved in development aid projects. These two points would seem to reinforce the findings that communication seems to be somewhat lacking in the development cooperation sphere and should be improved.

Focused information for specific working groups and target groups, national working groups and consultation for those in need would be an improvement. More specific projects, which would include entrepreneurs and private capital, as well as information and consultation, would be welcome.

Survey respondents also gave suggestions specifically aimed at the government. Firstly, there should be better media coverage and larger civil society involvement. Secondly, the public sector should do more to engage actively in trade related issues. Currently, the private sector plays a larger role. Survey respondents feel that if they have an interest in extending their business to a developing country where they face administrative barriers, there should be a clear mechanism to be able to express their concerns to the Estonian public sector, which can then try to fix it or find a solution to the problem. Currently, such arbitration mechanisms are in place through the MFA and Enterprise Estonia, therefore this would point to an awareness and communication issue between the private and public sectors.

[11] This would seem to be a prevailing trend in Estonia. In 2011, a Eurobarometer survey reported that 51% of Estonian respondents thought that Sub-Saharan Africa is in most need of development aid, compared to 19% for Eastern Europe outside the EU (Eurobarometer, 2011).

Estonia does not have special business representatives in many of the priority countries who would ease market entry, therefore it is quite difficult or even impossible for many Estonian companies to enter to some CIS markets. Interviewees suggested creating business consul positions to achieve this.

There should be more information and public awareness building, so that entrepreneurs would know all their available options. Enterprise Estonia could work more vigorously to promote trade relations in the private sector. Furthermore, as many Estonian companies do business with public sectors in the recipient countries (this is a strong trend), more case-based workshops and trainings/consultations for businesses about recipient countries' markets, cultures and laws is necessary. This finding would seem to concur with a main outcome of the 2007 Praxis/AKÜ debate on development cooperation, which stated that the resources for development education should be increased from 0.33% to 3% of ODA as proposed by the UNDP (Praxis, 2007).

In many ways, trade relations can improve only when the public sector understands that business and diplomatic relations should grow hand in hand in dealing with Estonia's partner countries. Also, the private sector should be able to provide sufficient information about business and trade conditions to potential import-orientated companies. Exports from the developing countries should also be publicly promoted and supported in Estonia. Campaigns and public lectures and events would be useful. There should be better coordination between ministries and other development assistance agencies. There should be more people working towards business diplomacy, both from the ministries, as well as the private sector.

5. Conclusions

Since starting to provide official development assistance in 1998, Estonia has continually been working towards setting up a strong national framework for regulating this activity. The historical legacy of being part of the USSR is still a key yet unspoken determinant of Estonia's foreign policy. In line with this, Estonia has latched onto ENP as a vehicle for its bilateral development cooperation. In doing so, it has reconciled the need to develop bilateral development cooperation while maintaining relations with its historical partners.

In spite of the politicisation of development assistance, Estonia has gone a long way towards fostering and Europeanising its development cooperation since joining the EU. The policy framework for undertaking bilateral trade has been in place for a long time, and Estonia has adopted all relevant legislation and setting up administrative structures to effectively harness the flow of aid and help support development assistance.

However, due to the small size of Estonia trade volumes are not as large as other countries. This can potentially limit the effectiveness of trade as a mechanism for bilateral development assistance. Trade is concentrated on a few key products, highlighting the shallowness of trade linkages with the partner countries. Furthermore, the trade focus has not been so much on the priority countries, with other developing countries experiencing an equally large growth in trade with Estonia.

Other trade supporting measures have seen an increasing amount of activity by Estonian actors, especially in direct investments and building up infrastructure. These important activities have helped compensate for the lower level of direct trade and have certainly had an impact through development cooperation.

Currently, there seem to be a few key bottlenecks to expanding the role of trade within development cooperation. The most significant of these relates to customs procedures, which can hinder the ease of doing trade. Nevertheless, these types of bottlenecks are to be expected and are not the most significant problem. Of greater concern is the relatively little public articulation and campaigning of trade related development cooperation activities. This would point to a number of challenges, such as the greater inclusion and engagement of both CSO and private sector representatives. Greater coordination between the three actors (public sector, CSOs and private sector) would certainly foster greater possibilities for trade and development cooperation.

6. Recommendations

On the basis of the analysis presented above, recommendations may be given for different groups of stakeholders.

For expanding the trade role for recipient country development, recommendations include:

- The capacity for developing and promoting aid for trade as an integral part of ODA exists, there are strong state structures, and private sector representatives who are connected. Yet the coordination between them is still below potential. Stronger linkages between the public sector, CSOs and the private sector in promoting trade awareness and issues would certainly help strengthen trade.
- Private sector businesses could work more towards setting up chambers of commerce in the priority and developing countries to facilitate trade and business.
- To date there has been much focus on development assistance for the Eastern Partnership countries, which while beneficial there, comes at the expense of Sub-Saharan Africa, Asia and Latin America. Therefore, greater focus on African and other Asian countries with which Estonia conducts much trade, but for which there are very few political and economic bilateral links, would be worthwhile.

Recommendations for the partner countries include:

- Encouraging them follow the lead of Estonia, and implement the best practice.
- Making sure they follow the bureaucratic procedures which ensure the greatest effectiveness of the assistance given.

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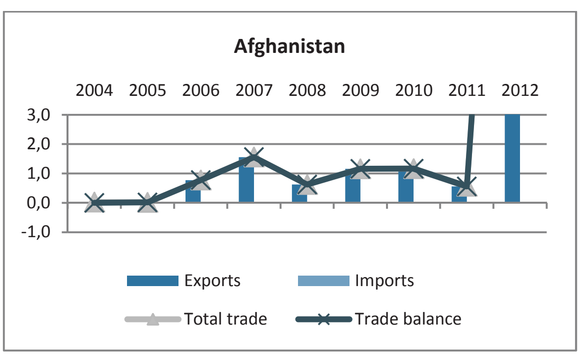
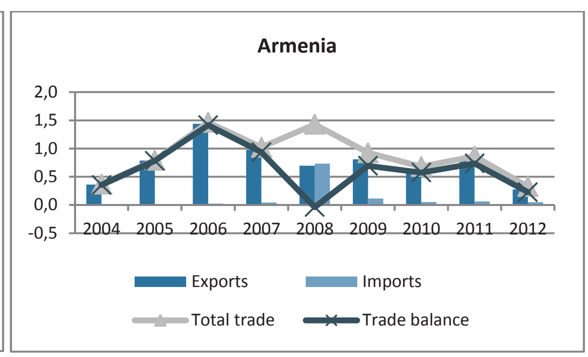
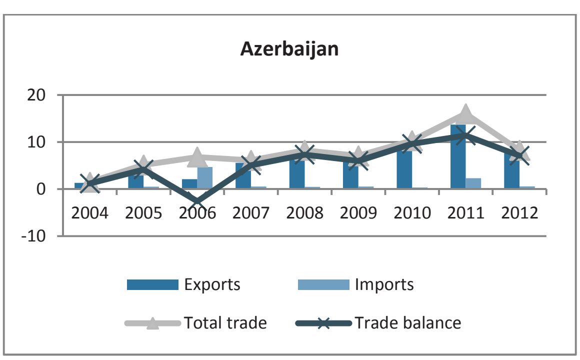
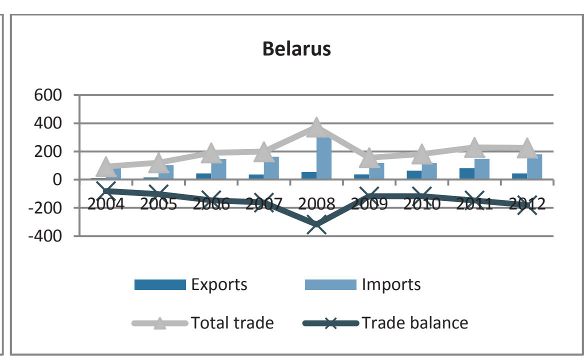
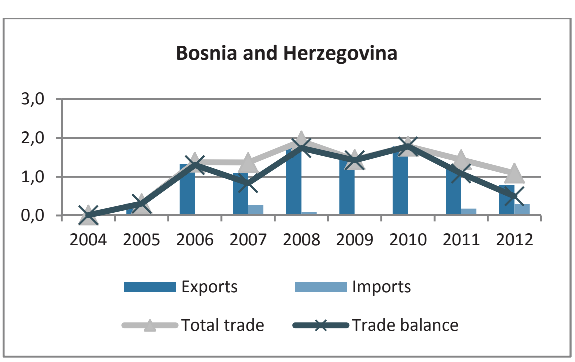
Appendix 1. Trade dynamics between Estonia and partner countries, 2004-2012 (million euros)

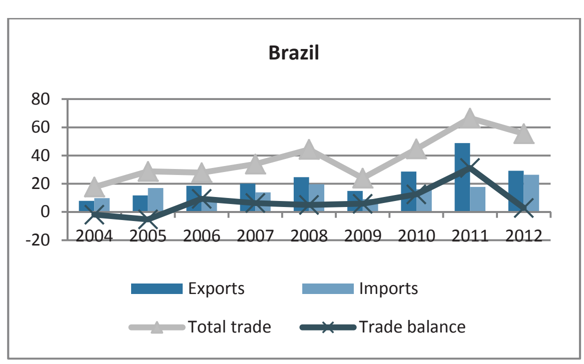


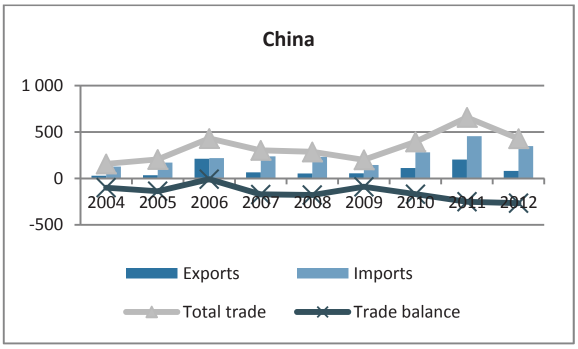


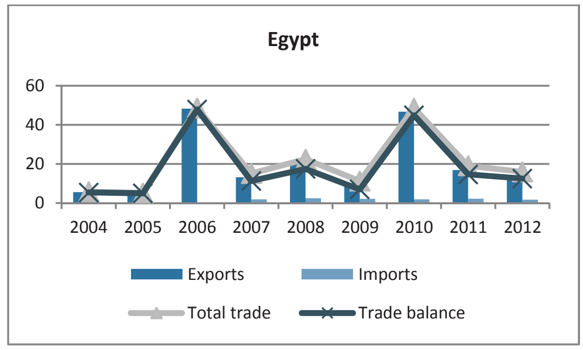


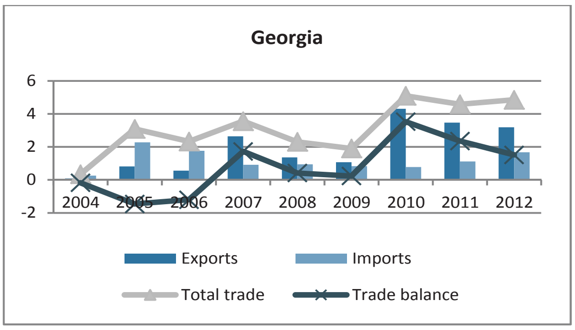


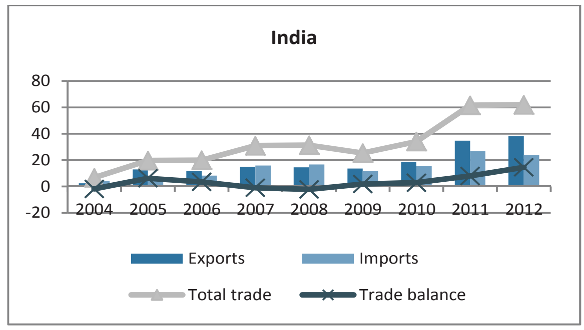


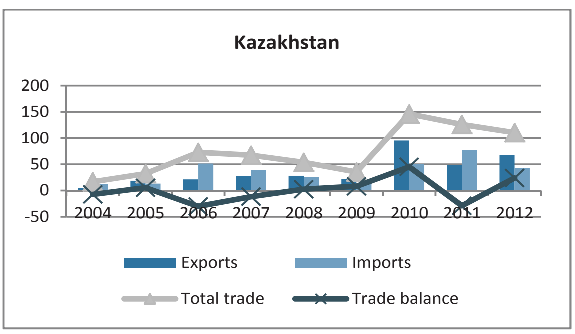


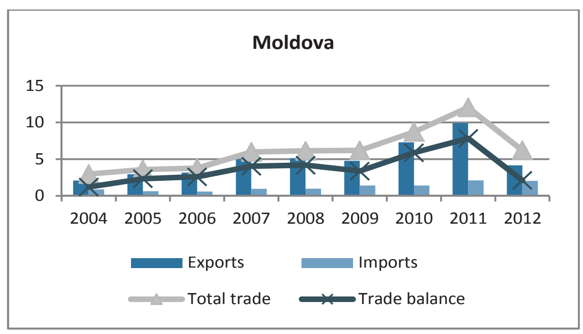


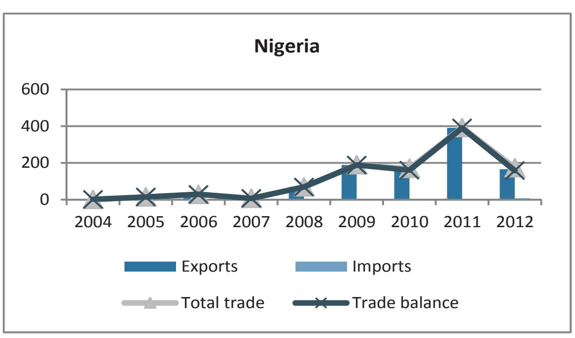


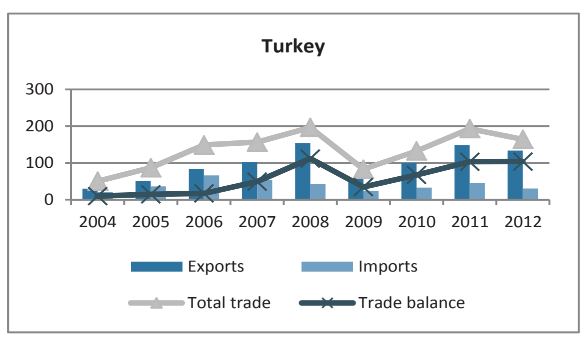


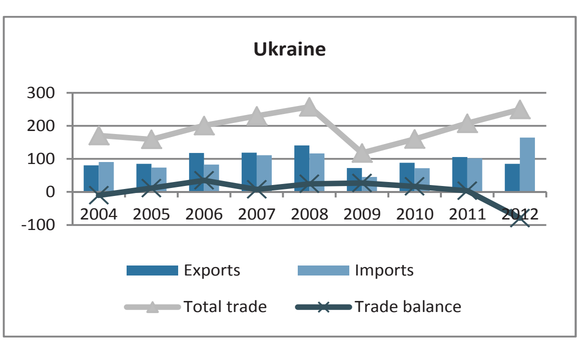












Source: (Statistics Estonia)

HUNGARY

Introduction to Hungary's International Development

Historical perspective, Hungary as a "New" Donor

At a recent technical workshop[1] many of the official participants argued that the title new donors or emerging donors was misplaced. Even though countries of the former Eastern bloc might be new to the donor community, the practice of development assistance is not new.

International development as part of foreign policy was a feature of the previous system when Hungary sustained foreign aid policies under the term "technical and scientific cooperation". Under this program, it nurtured close relationships with 'developing socialist brother' countries, such as Vietnam, Cambodia, Laos, Mongolia, Cuba and various African and Middle Eastern countries, such as South-Yemen, Angola and Ethiopia (Dreher, Nunnenkamp, and Thiele 2011, HUN-IDA 2004). Support ranged from technical assistance, know-how, scholarships to tied aid credits, and the supply of agricultural equipment, among others. As noted by Szent-Iványi development assistance was not separated from military aid, which was almost 30-40% of the total aid and accounted for 0.7% of the Hungary's national income of the time[2] (Szent-Iványi 2009). With the fall of the Eastern bloc, almost all of the former socialist countries discontinued suspended their aid policies.

During transition Hungary moved from being a donor to recipient and started its rugged road to become a member of the European Union (EU). In the 1990s, Hungary received assistance from the World Bank and the EU, as well as support on a bilateral basis from Japan, United States, Germany or the Netherlands (Szent-Iványi and Tétényi 2012). These contributions were mostly used to assist institutional change, provide technical expert knowledge, and enhance institutional capacities. The little aid that was provided by Hungary during this period was mainly in scholarships to students of developing countries and ad-hoc contributions to various multilateral organizations. In 1996 Hungary joined the Organisation for Economic Co-operation and Development (OECD), and commenced on its 'second life' as a development donor. In 2004, Hungary became a full-fledged member of the EU and with that came the obligation and responsibility to be a donor country.

1 "Assessing Existing Practices in Capacity Building for the Emerging Donors for the Central and Eastern European Countries" organized by the World Bank Institute, United Nations Development Program and the European Commission in June, 2012 at Corvinus University, Budapest

2 Szent-Iványi noted, in his PhD (2009) thesis, that the proportion of Hungary's development assistance is not comparable with the present days developed donors aid allocations, mainly because of the different method used to calculate Gross National Income (GNI) and the distinct definition and capacity of aid.

The nature of Hungary's international development assistance was, and still is, in a process of change and while mapping its main features is possible, pinpointing specific characteristics is not such an easy task.

The most significant changes came during the EU accession period, when Hungary had to comply with the requirements of the acquis communautaire. In the field of international development, the mandatory requirements were limited to the policy areas concerned with the financial perspectives of common programs, i.e. membership contributions and multilateral assistance. The development of bilateral assistance, however, remained within member states competency and without legally enforceable rules (Horký 2010).

Purpose Objective and Scope of the Research

This research explores the connections between bilateral trade relations and Official Development Assistance (ODA). The objective was to assess the extent that trade regimes and agreements have been used to support the Millennium Development Goals of poverty reduction and sustainable development. The research takes into account Hungary's past as a development donor, its International Development Cooperation (IDC) policy, Foreign Policy Strategy (FPS) and bilateral ODA disbursement trends. Furthermore, the paper scrutinizes Hungary's export and foreign trade with recipient countries of Hungarian bilateral ODA (BDA) to see which non-EU member countries are the main trade partners to Hungary and what are their relative weights in Hungarian foreign trade. The research compares the trade trends with the allocation of BDA to these countries, to see if there are any correlations between the recipient countries trade performances with Hungary, and the amount of allocated assistance. This comparison merely serves as a proxy-indicator to see if trends indicate that the increased flow of BDA can lead to increased trade relations.

Methodology

To inform the research paper a set of methodological steps has been elaborated and performed in the following sequence. 11 priority countries from the OECD DAC list (Development Assistance Committee) were selected and then, with the assistance of the Ministry of Foreign Affairs, the research identified and contacted additional ministries and agencies involved in International Development Cooperation (IDC). A survey was conducted to explore the nature of involvement of different agencies and line-ministries in IDC activities. Interviews were carried out with line-ministry officials, Chambers of Commerce and other private sector participants. Furthermore, the participants of the interviews contributed to a focus group meeting discussing the potential for private sector participation in development activities.

The Country Selection Process

The 11 priority countries were selected throughout the following process. First, statistical data on bilateral trade and export volumes were analyzed to determine Hungary's priority non-EU trade partners.[3] The list of main non-EU trade partner countries was compared with the countries specified in the Hungarian Foreign Policy Strategy. The selection also considered the sectoral priorities that were linked to each priority countries. The third step was to analyze the level of bilateral ODA to the selected partner countries. At this point the research could identify correlations between countries with high volumes of trade, occupying priority positions within Foreign Policy Strategy, and enjoying the highest allocation of BDA.

During the fourth step countries which Hungary has previous historical ties (HDT) were included. As a result, an additional country was selected being one of the oldest IDC partner countries to Hungary.

The table below shows priority countries chosen by trade volume (Serbia, Macedonia, Ukraine, Kazakhstan, China, Egypt) or ODA allocation level (Serbia, Montenegro, Ukraine, China, Egypt and Kazakhstan) and also those that appear on the Foreign Policies priority sectors, such as: Economic Interest representation,

[3] For a more detailed explanation on trade related data collection (see more: (Bartha 2013)

Strengthening Security and Energy Security. Two African countries – Kenya and Nigeria – are the exceptions, since they are not listed as Hungary's foreign policy priorities. However, the continuous allocation of BDA and the increasing trade relations were the determining factors to include them in the list. Vietnam was chosen because of previous historical ties and its priority place among the Hungarian IDC partner countries.

Table 1. Country Selection Criteria

Selection criteria → Countries ↓	Trade relations	Declared foreign policy preference						ODA level	WB or EP[4]	HDT
		Economy	**Security**	**Energy security**	**Community Rights of Minorities**	**Agriculture**	**Sustainable Dev.**			
Serbia	X	X	X			X		X	X	
Montenegro		X	X			X		X	X	
Bosnia and Herzegovina	X					X		X	X	
Macedonia	X		X			X			X	
Ukraine	X			X	X	X		X	X	
Kazakhstan	X			X		X			X	
China	X	X	X					X		
Vietnam						X		X		X
Egypt	X		X							
Kenya							X	X		
Nigeria								X		

Limitations of the research

The research is constrained by the limited availability of relevant and robust data. To compare foreign trade trends with BDA allocation patterns and provide quantitative results would require the observation of these two variables over a longer time frame. The Ministry of Foreign Affairs collects statistical data on ODA allocations for the OECD. As a result, reports are available from 2003 and accessible to all public, civil and private stakeholders alike. These contain the syllabuses of Hungary's ODA contributions as well. There is a constant progress in their reporting structures providing more coherent data on countries, donor ministries, projects, supported sectors etc. This makes the researchers' position more difficult, because comparison between current and previous reports is hard to make. The naming convention of sectoral intervention areas, for example, has changed substantially between 2008 and 2011. For the sake of transparency and interpretation, the research only used the ODA data from the tables provided at the end of each report which is only available from 2008; hence, comparison of foreign trade trends and allocated BDA is featured only between 2008 and 2011.

As a result this report does not claim to be a comprehensive analysis of foreign trade and BDA, but rather an explorative type testing the potential of such method for a further, more comprehensive approach.

International Development Policy and Foreign Policy Strategy

In 1996 Hungary became a member of the OECD, and prepared its first international development policy (MFA 2003). In 2001, the Hungarian Government approved the concept paper that signalled a shift from ad

[4] Refers to the Western Balkan countries, or the European Unions Eastern Partnership initiative

hoc and decentralized development policy towards a development cooperation, which complies with UN, OECD and EU norms.[5]

Hungarian Development Policy does attempt to comply with all regulative measures obliged by the *acquis communautaire*, including its normative contributions to the European Development Fund (EDF), to act upon the commitments to the Millennium Development Goals (MDGs), adhere to the principles of the 2002 Monterrey Consensus and the 2008 follow-up in Doha. To comply with OECD measures, Hungary's ODA contribution needs to reach 0.33% of GNI(MFA 2003).

Institutional Background

In 2003, Government Regulations[6] amended the mandate of the Minister of Foreign Affairs (MFA) to establish three main bodies and one advisory committee:

- The IDC Inter-budgetary Committee to determine partner countries and target intervention areas.
- The Inter-Budgetary Technical Working Group to harmonize the different line ministries activates and increase the effectiveness of separate MFA IDC budget.
- The NEFE Working Committee (within the MFA) to support the harmonization of NEFE 'programs' with the foreign, security and foreign trade or export ambitions.
- A Social Advisory Board to strengthen the acceptance and support of IDC activities between the social, technical institutions, representatives of the broader public.

IDC activity areas:

In order to determine ID activities, the policy uses the OECD interpretation of development assistance, which includes the following international development activities:

Technical cooperation

Mainly consists of education, scholarships, vocational training, and knowledge transfer type contributions. This is the most common type of assistance, establishing long-standing relationship with recipient countries.

Project-based development assistance

The concept is developed to contribute to recipient countries' Poverty Reduction Strategy Papers (PRSP) or Country Strategy Papers (CSP) and finance the implementation of these strategic development plans. Donors can either partly or fully finance projects based on these strategies. The effectiveness of this assistance is often determined by the broader context and the projects' general socio-economic implications and sustainability.

Humanitarian assistance

These are emergency types of aids, aimed at assisting victims of either natural disasters, or man-made catastrophes. In these cases, political considerations are negligible, but it is important to ensure the domestic conditions of fast response by assisting domestic NGDOs and other organizations that can deploy assistance (technical or material) to reach the affected areas in the recipient country in a short timeframe.

[5] http://ec.europa.eu/europeaid/what/developmentpolicies/financing_for_development/documents/hungary-donor-profile.pdf (Accessed 03/01/2013)

[6] Government regulation 82/2003 (VI.7.) and the 2121/2003. (VI.6)

Requirements of programme execution

To ensure the fluent implementation and shape the relevant conditions and institutional frameworks, the following structures and mechanisms help enable the realization of IDC policy. Delivery is ensured by the MFA supervised technical institution, executed by private sector or civil organizations mandated by the centrally coordinated body through tendering procedures.

The delivery mechanism has three main elements:

- The **MFA** identifies and supervises the implementation of development programs based on Inter-budgetary Committee decision.
- The **Delivering agency** provides financial and technical assessment, prepares tendering and organizes project implementation.
- The **Implementing agency** executes the actual implementation of the project.

Observations

The above outlined concept note was formulated in 2001, but MFA officials claim it is out-dated and ill equipped.[7] Unfortunately, this is the only policy overview of Hungary's IDC activities. At the focus group discussions some participants noted that international development activities are vaguely regulated and there is no framework to modulate international development related activities of line-ministries. Some interviewees noted that IDC policy does not interfere with line ministries and other institutions' established to provide aid-support activities (Szent-Iványi and Tétényi 2008).[8] IDC only provides a platform to coordinate IDC type activities which means that it is a soft policy tool which can exert only limited influence over the 'lion's share' of the BDA budget which is provided by the line-ministries.[9]

Financial Framework

Focus group participants agreed that efficient and reliable financial resources are essential to support development competencies within the ministry, but as one official explained, "the policy does not go beyond this recognition. It neither suggests any alternatives, nor has any jurisdiction to do so." A predictable two-three year funding framework for example, and a reliable IDC development strategy could substantially enhance aid effectiveness and increase their sustainability.

Monitoring and Evaluation Frameworks

Monitoring and evaluation frameworks can help assess effectiveness of implemented projects, and learn from past mistakes and successes. However, as the surveys revealed, evaluations are not an organic part of the aid planning, therefore the objectives to what the project should achieve are not always clear.

Sectoral Embeddedness

As there is no unified approach to development assistance, some sectors have been identified as areas where Hungary has comparative advantage, but these are often accompanied with little strategic planning. Contributions to these sectors remain dispersed and ineffective. For the same reason that international

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7 Interviews discussion notes 20/12/2012

8 As Szent-Iványi noted,"…domestic aid structures are highly fragmented in the case of Hungary, the Ministry of Foreign Affairs only oversees a small part of the development budget, the rest of which is under the control of line-ministries, who are in charge of project and program implementation. The Ministry of Foreign Affairs, while charged with coordination of aid efforts, in practice has little means to influence the other ministries." (Szent-Iványi and Tétényi 2008:582)

9 Interviews discussion notes 20/12/2012

development is not mainstreamed into other sectors such as trade hence sectoral advantages are not exploited. Officials admitted that Hungary does not have a separate Aid for Trade strategy.[10]

Selection of partner countries and sectoral intervention areas

The selection of partner countries is based both on partner countries' needs for social and economic development and the opportunity to strengthen bilateral relations. Development agreements are based on geographical proximity, regional stability and the continuation of already established broad social and political relationships(MFA 2003). The international trend is that donors should concentrate on countries and sectors where they have 'comparative advantages'; hence they can perform the task of giving foreign aid more efficiently. Hungarian development policy identifies such comparative advantages as transitional knowledge, education, and health sector, agricultural know-how, water management, infrastructure planning and civil society development.[11] However, these advantages are seldom based on actual relevant experience, but rather follow a trend among the Visegrád countries (Szent-Iványi and Tétényi 2008). The policy paper gives little explanation of the selection criteria. Instead, the emphasis should lie on the actual and proven comparative advantages Hungary has in achieving the development goals.[12]

The DIDC is the body with primary responsibility to plan so called 'conscious development' activities.[13] During interviews and in the focus group discussion, the representatives of the MFA announced that the Parliamentary Foreign Affairs Committee had lodged a draft resolution to initiate a discussion on the Hungarian International Development Cooperation Policy and to request the Government to develop a Medium-term International Development Framework strategy by June 30, 2013.

Hungary's Foreign Policy Strategy

IDC does not appear as a separate strategy within Foreign Policy, but in reference to various international commitments and priorities (MFA 2011a). This section should be understood as a short overview.

The Value-Based Foreign Policy

In view of both international law and the foundational values of the international community, namely sovereignty and territorial integrity, the most important national values in Hungarian foreign policy are:

- Sovereignty and territorial integrity
- Cross-border national co-operation
- Marked responsibility for the economic development of Hungary
- Promotion of Hungarian culture and the cultures of nationalities in Hungary
- Responsibility for Hungary's natural environmental state.

Foreign Policy Priorities

The foreign policy defines the following priorities:

- ***Regional Policy:*** the representation of Hungarian interest including domestic economic interest, interest of Hungarian ethnic minorities living outside of the country's borders in Central – and South-Eastern European countries.

[10] Aid for Trade should aim to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure to implement and benefit from WTO agreements and expand their trade(Lester 2007).

[11] www.kulugyminiszterium.hu/NR/...8F65.../061206_newdonor.pdf (Accessed on 01/03/2013)

[12] New donor countries from the Visegrád region do not seem to have a clear picture of what their advantages are. All countries have issued statements on aiding sectors where they believe they have comparative advantages compared to other donors. However, the list of these sectors is usually too long to be taken seriously (Szent-Iványi, Tétényi, 2008:581)

[13] Interviews discussion notes 20/12/2012. The expression comes from the officers of the MFA DIDC.

- ***Euro-Atlantic orientation:*** National interest representation at the EU and the NATO to promote a strong and unified Europe and realize Hungary's goals in furthering the Trans-Atlantic cooperation.
- ***Global Opening:*** To renew Hungary's relation with countries that fell out of focus of the foreign policy, strengthen Hungarian presence in the international community and increase its activities to tackle global challenges.

Sectoral Approach

Foreign policy should support endeavours to increase the country's competitiveness in an international setting. The sectoral approach defines areas where Hungary's efforts are concentrated to draw the contour of Hungarian foreign policy profile (see Annex 1). The following six sectoral priorities are:

- Economic interest representation
- Strengthening Security
- Energy Security
- Strengthening Community Rights of National Minorities
- Interest Representation of the Agricultural Sector
- Fostering Sustainable Development

Assessment of the Foreign Policy Strategy Priorities

Since the main focus is on sectoral and priority objectives towards countries that receive ODA or are significant trading partners, the FPS's implications on Hungary's Euro-Atlantic Orientation will not be addressed. The section provides a description of the role of priority sectors at the Regional and Global Policy Levels.

Regional Policy

Hungary's strategic partnership with central and eastern neighbours suggests an interest in a Central European interest group that seeks to apply pressure on the EU and counter balance western political and economic leverage. This explains the priority position of Economic Interest Representation, and Security, to ensure state integrity and stability as a sectoral priority. Harnessing dynamic economic development between these countries is hampered by weak transport and energy infrastructure although attempts to develop this infrastructure are unfolding within the Danube strategy.

With the EU expansion towards the West-Balkan region, security policy received an exclusive second position on the FPS priority list. European integration can provide a great opportunity to provide technical experience to economies in transition or to facilitate institutional development and democratic transition in candidate states. Priority countries in this regard are *Serbia* and *Montenegro*. The question of security in *Macedonia* is also crucial in for political stability in the region; however it received a more modest position on Hungary's ODA distribution list.

An additional priority country is *Ukraine*. Fostered by the Eastern Partnership Program, *Ukraine's* adaptation of European standards is key to ensure the energy transit routes towards Central Europe. The continuous transport of goods and personnel to the Central European region brings a possibility to develop the relevant infrastructure and helps maintain the priority of the Eastern Partnership on the EU agenda.

Global Opening

Hungary seeks to revitalize relations to Asia and the post-Soviet region and strengthen its international position by diversifying foreign trade. These ambitions can also support the objective to increase job creation.

Central Asia, Post-Soviet Region

Revitalizing relations with Kazakhstan serves three purposes; first, to ensure an uninterrupted flow of a crucial energy source; second, to gain access to other regions with Hungarian minorities; third, to ensure the Central Asian countries' transition towards democratic political values, with stable, more predictable and transparent legal and economic systems that will help secure access for Hungarian goods.

Since a significant portion of Hungarian capital appears in this region it is an economic priority to maintain good relations. Potential areas of cooperation are economic and environmental sustainability, democratic transition, and fostering cultural diversity. Hungary can help modernize food production, energy and food-crop production technologies on an industrial scale in south-central Caucasus region. Hungary's potential intervention areas are the development of sustainable water irrigation systems and soil quality mitigation.

Eastern Asia

To sustain growth and development, countries in this region have to meet their increasing needs for raw materials. Countries often struggle with food security, climate change, floods and droughts, all of which contribute to soil deterioration. In spite of the small share of Hungarian export there is a considerable experience in scientific cooperation with Asian countries such as Vietnam and Laos. Asia is key for the country's FP that seeks to intensify its exports to meet the increasingly growing demand from Asian markets.

Middle East and North Africa

These regions are important from a safety and security standpoint, especially in the light of the "Arab-spring". Hungary's objectives are to ensure the security of the state and support peace in the region, encourage democratic processes and enhance the regions external market capacity.

Sub-Saharan Africa

During the Cold War, Hungary's political interest towards Africa was bloc-based. In the aftermath, while most African countries were going through political re-structuring, the region did not attract considerable Hungarian investment. Business interest was low mainly because of state instability. With EU accession, Hungary's interest towards Africa gained a new institutional and political context, but till this day it has not been utilized to a full extent. Since it is rich in minerals, Sub-Saharan Africa's global and economic role has been re-evaluated and as a consequence of its integration in the world market, rapid economic growth appeared in a number of countries. Strengthening ties with Africa could be beneficial for both Hungary and the African nations. To increase Hungary's involvement, the EU's common external policy framework and humanitarian aid programs can be useful to gain experience and further Hungary's role as an international development actor. To pursue active participation in the African development process will require the introduction of Hungary's 'Own Africa Policy'. If Hungary was to develop an Africa policy, humanitarian and food aid, agricultural, environmental, water-management and health related issues should compose the core of such policy.

Table 2. Hungary's ODA Contribution between 2003 and 2011 in Million EUR 2011 price

Hungary	2003	2004	2005	2006	2007	2008	2009	2010	2011
Bilateral ODA	14.5	33.0	36.0	73.9	26.1	11.1	22.2	22.1	23.9
Multilateral ODA	7.7	32.2	55.3	57.1	55.6	65.6	65.5	66.9	76.9
Bilateral ODA as %	65%	51%	39%	56%	32%	14%	25%	25%	24%
Multilateral ODA as %	35%	49%	61%	44%	68%	86%	75%	75%	76%
Total ODA	**22.1**	**65.2**	**91.3**	**131.0**	**81.6**	**76.7**	**87.7**	**89.0**	**100.8**
ODA/GNI ratio	0.03	0.07	0.11	0.13	0.08	0.08	0.10	0.09	0.11

Based on OECD/DAC Statistics, presented in Million EUR 2011 price

Official Development Assistance

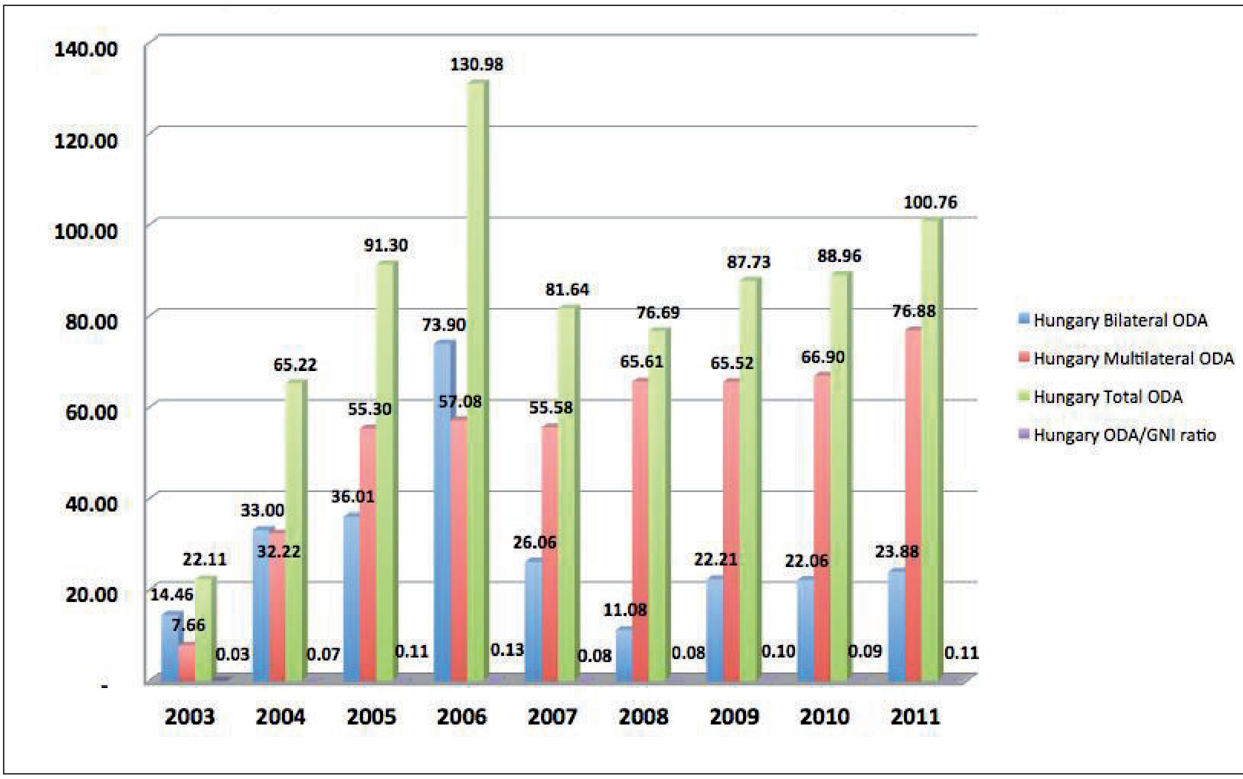
Hungary's donor activities changed considerably over the past 10 years. Hungary is expected to provide assistance to the least developed countries (LDCs). According to the OECD targets, Hungary should have provided 0.17% of its GNI by 2010, and 0.33% by 2015 as ODA (Kiss 2012). At the same time, international development standards also define common targets such as the Millennium Development Goals (MDG). These expectations have strong influence over which countries receive ODA from Hungary, and how much.

Fact Box
Official Development Assistance is Grants or loans to countries and territories on the DAC List of ODA Recipients and to multilateral agencies, which are:
(a) undertaken by the official sector;
(b) with promotion of economic development and welfare as the main objective;
(c) at concessional financial terms (if a loan, having a grant element of at least 25 per cent). In addition to financial flows, technical co-operation is included in aid.

What are the MDGs?
The eight Millennium Development Goals (MDGs) form a blueprint agreed to by all the world's countries and all the world's leading development institutions. They have galvanized unprecedented efforts to meet the needs of the world's poorest.

Hungary's ODA contributions increased from 22.11 million EUR to 100.76 million EUR between 2003 and 2006. This steady climb from 0.03% of GNI to 0.13% of GNI came to a halt in 2007 only to climb again from 0.08% to 0.10% between 2007 and 2009. Data from 2011 shows a 0.02% increase, though it is only a preliminary estimate. Focusing on the targeted 0.17% by 2010 commitment, Hungary seemed to have a clear chance in 2006 to reach it. However, this never materialized as ODA came 0.08% in 2010. Parallel to this process, Hungary's share of multilateral and bilateral ODA contribution also went through a strong transformation. (See Fig. 1). Due to the limitation of the sources and the constant development of the MFA's reporting structure, the titles and categories within ODA activities (e.g. education, agriculture, technical cooperation) are not consequent throughout 2003-2011 which means it is very difficult to examine how funds earmarked for one type of activity increased or decreased over time.

Figure 1. Net ODA disbursement between 2003 and 2011 based on OECD data



Bilateral ODA

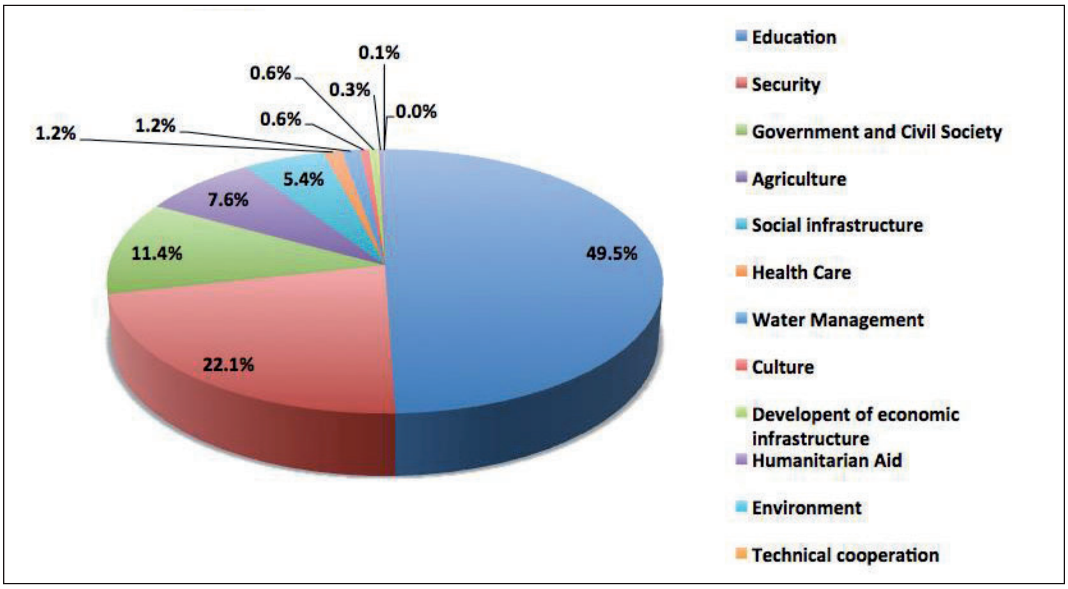
Bilateral assistance is a more direct interaction between the donor and recipient, allowing political and economic interest representation of the donor countries, as well as the expression of the donor identity. In case of Hungarian development assistance however, the trend is different - most ODA is channelled through multilateral aid and it is disproportionally higher compared to ODA channelled through bilateral agreements (Kiss 2008). The reason is the priority given to the international commitments and membership contributions. The already small budget allocated to ODA has to fulfil multinational needs and as such, the portion of bilateral aid carrying the potential to accentuate Hungary's development profile is ever shrinking.

Who Plans Aid?
The MFAs DIDC is responsible to design, develop, finance or in cases implement International Development type projects. These projects are labelled as 'consciously planned' International Development projects, and directly link to the MDGs and incorporate Aid Effectiveness principles. The DIDC works together with line ministries to provide technical support on how to develop ID sensitive projects.

Legal Challenges

Planning, implementing and coordinating international development projects is within the purview of the MFAs DIDC.

Figure 2. Share Of Development Activities in Bilateral ODA 2011 (Based On MFA Data and own calculations (MFA 2011b)



The official position is that line ministries have bilateral international activates related to their mandates, where they provide specific financial assistance to partner countries, in the form of scholarships, financing trainings, facilitating technical cooperation or small projects, etc. Their role in relation to ODA is merely to provide statistical data based on these activities. Hungary's ODA contributions are financed from a central budget. The Minister of Finance proposes a budget for development assistance in the annual Budget Bill. A certain share is earmarked as international development, and is within the discretion of the MFA. The line ministries' budgets and activities are not earmarked as international development, despite that fact that they actually support international development goals which leaves the exact relation between international development and ODA somewhat vague. The DIDC provides an annual statistical analysis of Hungary's ODA for the OECD. It collects information from line ministries on those items that can be accountable as ODA but it would be fair to say that line ministries are not generally sensitized to international development activities.[14]

Sectoral Allocation of Bilateral Development Contributions

Over the past 4 years Hungary provided between 14% and 23% of its ODA through bilateral channels. The following section gives an account for the titles, sectors and the distribution of recipients of the bilateral contributions.

In 2010, bilateral ODA was disbursed among 84 countries, which appears somewhat inefficient considering the scarce financial resources the country can provide for ODA (Kiss 2012). This type of distribution is also ineffective considering that more than 50% received aid was worth less than 3.500EUR in total. Many of the expenses recorded as bilateral ODA cover the costs of a flight ticket.[15]

Main ministries contributing to Hungarian ODA

Ministry	Sector
Ministry of Foreign Affairs	International Development, Health, Education, Government Civil Society, Humanitarian Aid
Ministry of Rural Development	Agriculture, Education, FAO Scholarships
Ministry of National Economy	Tied Aid Credits, Agriculture, Water management, Education, Economic Infrastructure Development
Ministry of Defence	Security
Ministry of Human Resources	Education, Scholarships, Culture
Bethlen Gábor Alapkezelő Zrt	Education, Government Civil Society

[14] Interviews revealed, in order to increase awareness of development issues, the MFA provided capacity building for line-ministry officials who manage ODA type activities. There is also a written guideline – available internal only – on how to determine if an expenditure item is 'ODA-able'.

[15] Interview discussion notes 2012

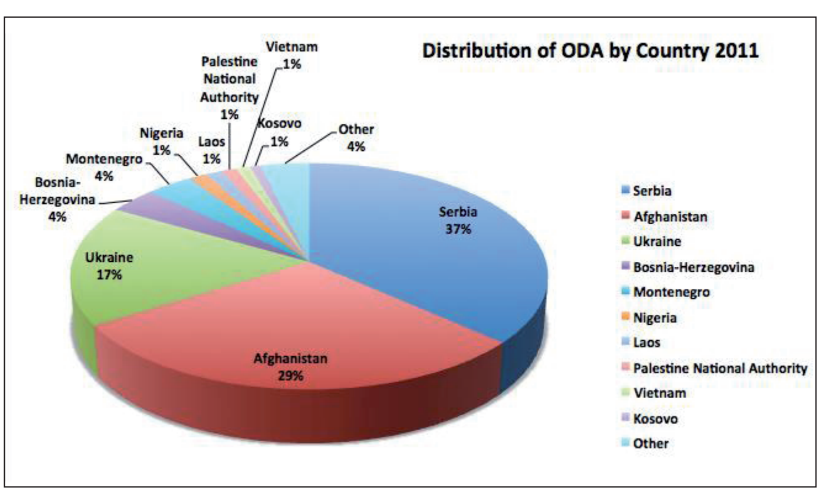
In 2011, the distribution of Hungary's bilateral ODA was the following: Education, scholarship, exchange programs cover almost 50%; Security (mostly costs of missions to Afghanistan, Kosovo, Iraq), 20%; Government and Civil Society (mostly capacity building to facilitate democratic institutional development) 10%; and Agriculture (FAO supported and other projects) 7%.

In terms of partner countries, Hungary developed a list of 15 countries that should receive a considerable part of ODA. The data shows that these countries are less likely to be among the LDCs, but they appear selected because of international commitments or their geographical proximity to Hungary. Figure 3 shows the first 10 recipient countries of BDA in 2011 and Annex 4 shows the average BDA contributions to the 21 countries that received most of the BDA between 2008 and 2011.

Summary

In sum, there are important conceptual differences between IDC activities managed by the MFA's and the BDA contributions which are provided by line-ministries. These are mainly due to the domestic political legitimacy issues that stem or are reflected in the lack of a comprehensive policy measure. Despite its efforts MFA competency is limited to and does not have tangible influence over other ministries' BDA allocations. However, the stakeholder interviews suggested informal co-operation between for example the MFA and the Ministry of Rural Development. As one interviewee said: "This is not to say that BDA provided by other ministries does not contribute to the development of the recipient countries, but rather implies if coordination was stronger, it would have a greater impact." The poorly regulated management of BDA funds also raises concerns in terms of monitoring and evaluation. Without a strategically designed and coordinated BDA framework, the impact assessment of these funds is altogether difficult. The sectoral allocation of BDA shows a strong emphasis towards education, scholarship, which is understandable considering Hungary's potential to provide education type contributions opposed to project based ones. One rational argument is the respective administrative and management costs and knowledge requirements of scholarships compared to project based approaches. Also in terms of development contributions, interviewees noted, providing education scholarships to students from developing countries contributes to MDG2.[16] At the same time, providing scholarships to developing countries is a clear continuation of the FPS goal to strengthen a positive country image, and provides Hungary with potential networks for later business and diplomatic relations. Several interviewees referred to Hungarian educated ministry officials in Nigeria or Mongolia as great assets that could foster bilateral economic relations. However, there was little evidence that these relationships have actually been maintained effectively in the past decades.

Figure 3. Distributions of bilateral ODA by Country 2011
(Based on MFA data and own calculations (MFA 2011b)



[16] MDG2 Target 2.A: Ensure that, by 2015, boys and girls alike, will be able to complete a full course of primary schooling. This achievement is somewhat shadowed by the fact that most of Hungarian scholarships refer to either university or other vocational trainings.

Current State of Bilateral Trade and Applied Trade Regimes

Trade Agreements

The following table summarizes the existing trade agreements in relation to Hungary's main BDA recipient countries. Hungary's bilateral trade agreements are in accordance with WTO (WTO 2013)and EU(EC 2013) rules and regulations. (For more information of EU trade agreements, see Annex 5.)

Table 3. International Agreements of Trade regimes

Hungary's Bilateral ODA priority Countries	EU Trade Agreements				WTO	CEFTA
	Stabilization and Association Agreements (SAAs)	FTA	EFTA	Interim Economic Partnership Agreements		
Bosna and Herzegovina	Interim Agreement 2008		Ongoing		Observer	2007
Serbia	Interim Agreement 2010		2010		Observer	2006
Montenegro	2010		2012		2012	2006
Macedonia	2004				2003	2006
China			Ongoing		2001	
Vietnam		2012 ongoing			2007	
Ukraine		2012 DCFTA ongoing	2010		2008	
Kazakhstan			Ongoing		Observer	
Egypt			2007	2004	1995	
Nigeria				Ongoing	1995	
Kenya				2007	1995	

Bilateral Economic Agreements

Hungary established several bilateral agreements with countries in different areas, such as economic, scientific and technological, financial or diplomatic cooperation. Unfortunately, not all agreement documents are available publicly. The formulation of economic agreements follows a general scheme. For more information on the list of countries and their respective agreements, and a short general summary of each available agreement, please see Annex 2.

Hungarian Bilateral Trade of Goods 2003-2011

Hungarian exports increased by 9% between 2003 and 2011. However, all trade activities were affected by the 2008 crisis and hence, the trade performance was rather poor. Most exports are manufactured goods (29%), machinery and transport equipment (61%) followed by food and beverages (6.5%). Crude materials (2.1%) and energy (1.6%) were the lowest ranked export goods. Unfortunately, the export dynamics shows a discouraging picture, as those product groups with the most relative weight in export between 2003 and 2011 were the least dynamic relative to overall exports. Machinery and transport equipment performed 7.5% below average growth and manufactured goods only showed a 2% growth between 2003 and 2011.

Table 4. Export by product groups, 2003-2011

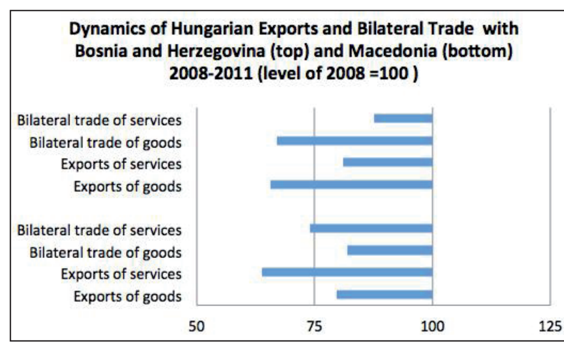
Development of Hungarian Export of Goods to all Countries by Product Group	Total Chapters of the SITC	Food, beverages, tobacco	Crude materials	Fuels, electric energy	Manufactured goods	Machinery and transport equipment
Growth of Export between 2003 and 2011 (EUR current prices, level in 2003 is equal to 100)	247.1	285.2	364.8	549.6	252.2	228.6
Export Dynamics 2003-2011 by Product Groups (average = 100)	100.0	115.4	147.7	222.4	102.1	92.5
Relative Foreign Trade Weights (%)	100.0	6.5	2.1	1.6	28.7	61.1

Country profiles

The following section will provide an overview of the development of bilateral trade of Hungary with *Bosnia and Herzegovina, China, Egypt, Kenya, Kazakhstan, Montenegro, Macedonia, Nigeria, Ukraine, Vietnam and Serbia*. The analysis will focus on the *exports of goods*, *exports of services*, *bilateral trade of goods and bilateral trade of services*[17] between the periods 2008-2011.[18] As mentioned above, sufficient ODA data provided by the MFA is only available between 2008 and 2011 therefore the research is limited to this period.[19]

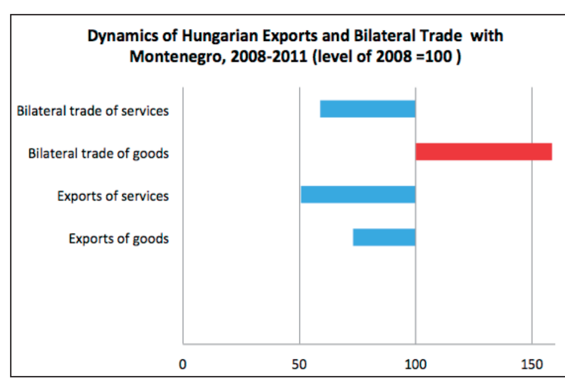
The Western Balkans (Bosnia -Herzegovina, Macedonia, Montenegro, Serbia)

Against overall trends, exports to *Bosnia and Herzegovina* decreased considerably and similar tendencies are observed in services. Overall bilateral trade decreased by 34% between 2008 and 2011.



Exports of goods to *Macedonia* decreased by 23%, while the export of services experienced a more considerable drop of 37%. In this case, both export of services and goods are below average amounting only to 0.071% of total international trade in 2011. In terms of overall bilateral trade, a decrease of 19% was observed during the analysed period.

Accounting only for 0.05% of overall bilateral trade in 2008, by 2011 *Montenegro* increased its share by 58%. However, Hungarian export of goods and services was 50% below the average among all trade partners.



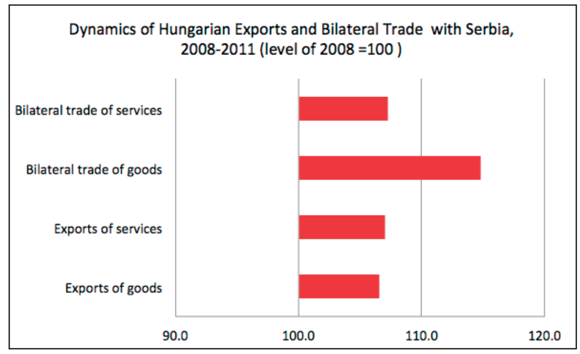
Serbia is the strongest trade partner of Hungary from this group accounting for 0.95% of overall trade, and in spite of the economic crisis the export of goods and services was 7% above the average between 2008 and 2011.

[17] Export and foreign trade dynamics is own calculations based on the data from the Hungarian Central Statistical Office (KSH 2013). All prices are calculated in EUR 2011 constant rate.

[18] Also it is important to stress here, that the observed 2008 – 2011 timeframe is an enduring crisis period, therefore the analysis about trade dynamics refer to a particularly negative period and it gives a darker picture than the long-term trend.

[19] Calculations of Bilateral ODA allocations and the detailed analysis of sectoral allocations are based on (MFA 2011b); (MFA 2010); (MFA 2009); (MFA 2008) reports and own calculations. All bilateral ODA amounts are calculated in EUR 2011 constant price.

Bilateral trade in goods increased by more than 14%, and bilateral trade in services were 7% above the average.

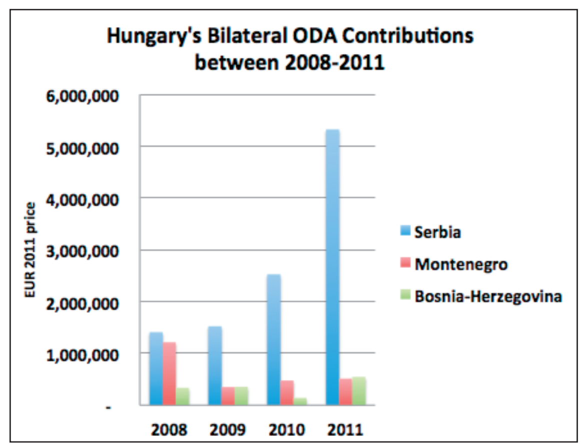


Trade Structure

With South-Eastern European countries Hungary has a significant trade surplus: the imports from the countries of the region typically amount to 10-30% of the Hungarian exports. In addition to machinery industries' exports that is the flagship of Hungarian foreign trade, pharmaceutical companies are also outstanding exporters in the Western-Balkan countries. Hungarian agricultural and food industry companies have an important role in food supply to Bosnia and Herzegovina and the energy sector is an important provider for Serbia. The only exception from this general profile is Montenegro: due to the outstanding volume of imports from Aluminium and articles thereof (99% of the imports from Montenegro), Hungary registers a deficit with Montenegro.

Bilateral ODA between 2008-2011

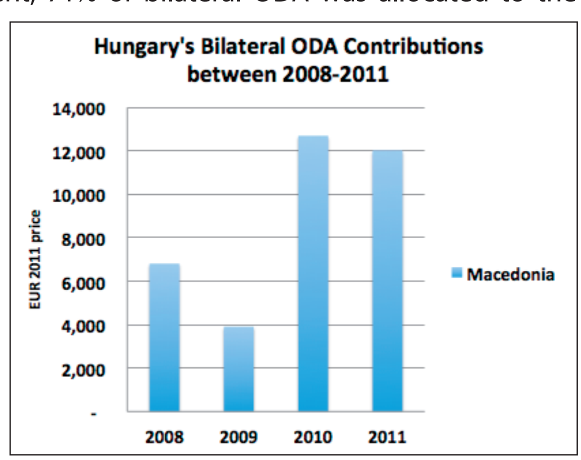
In terms of BDA, Bosnia and Herzegovina, Macedonia, Montenegro and Serbia received continuous aid flows from Hungary in this period. All four countries are part of the EU's Neighbour Policy, and are considered in the FPS. However, BDA allocations show very dissimilar picture. Between 2008 and 2011 *Serbia* received the highest amount of ODA among the analysed countries (altogether 10,777,521 EUR in 2011, which corresponds to 19.3% of the overall BDA in 2011) demonstrating a 278% increase by the end of the period. A substantial part of ODA was channelled through the educational sector, either in the form of scholarships or training, accounting for 60% of the overall. There was a slight departure in 2009 when the cultural sector received 58% of all the ODA allocated to Serbia. This activity was labelled as "supporting Hungarian Minorities over borders"(MFA 2011b)



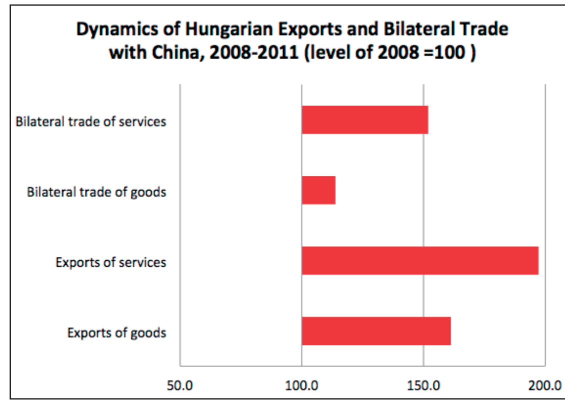
Montenegro shows a very different trend. While it received 11% of bilateral ODA in 2008, in 2011 it accounted for only 3.5% of the overall sum, experiencing a staggering 58% decrease.

Bosnia and Herzegovina shows a third type of dynamic. Starting with 3.2% of bilateral ODA in 2008, it climbed to 3.7% in 2011. Bosnia and Herzegovina also has a tied aid credit agreement with the Government of Hungary amounting for 41% of its ODA in 2008 and 22% in 2011. Supporting an experimental project to plan and realize a community based rural development, 71% of bilateral ODA was allocated to the agricultural sector in 2011.

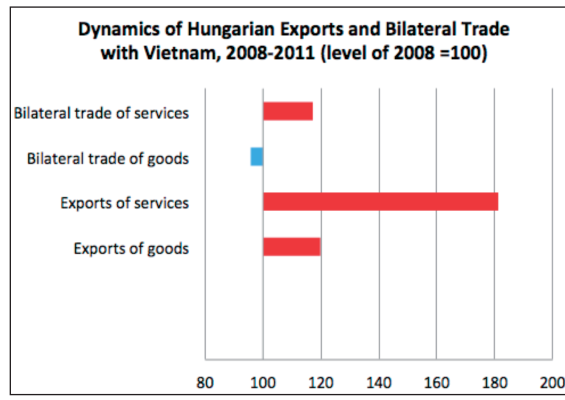
The trend in *Macedonia's* ODA allocation is somewhat similar, except that Macedonia can only account for an average 0.01% or 35.424 EUR in 2011 of total bilateral ODA between 2008 and 2011. In 2011 ODA was spread across three sectors: 35% went to education and scholarship, 36% was used in agriculture, and 28% was allocated for governance and civil society. While scholarships, trainings and exchange programs accounted for only 4% of ODA in 2008, these types increased markedly by 2011.



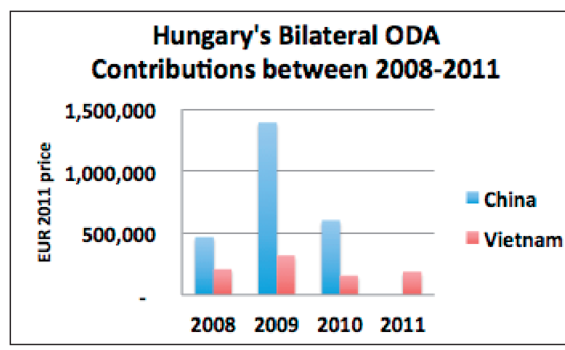
Asian Countries: China and Vietnam



China is an important trade partner receiving 1% of Hungary's overall export in 2008, and steeply increasing in the following years despite the financial crisis. In 2011 export of goods to China added up to 1.21bn EUR, or 1.53% of Hungarian overall export capacity. In terms of service exports, China's share increased from 0.5% to 0.7% and in terms of overall bilateral trade, the Chinese market files 3.3% of gross Hungarian trade in 2008 expanding with a moderate 13% to 2011.



Vietnam receives a smaller fraction of overall Hungarian export fluctuating around 0.04%, with a moderate growth (19%) between 2008 and 2011. The 81% growth in export services by 2011 is considered a good performance, though concerning bilateral trade of goods, Vietnam showed a 5% decrease in comparison to Hungary's other trading partners.



Global trade flows dominate the profile with the Asian countries. However, in the Chinese and Vietnamese relations Hungary has a trade deficit – the volume of that is moderate with Vietnam, but it is very high in relation to China (the volume of Hungarian exports covers only roughly one-third of the imports from China). Machinery products dominate the Chinese-Hungarian trade relations, but the trade of chemical products is also significant. Concerning Vietnam, the Hungarian trade flows comprise several food industry products, pharmaceutical, chemical and furniture articles.

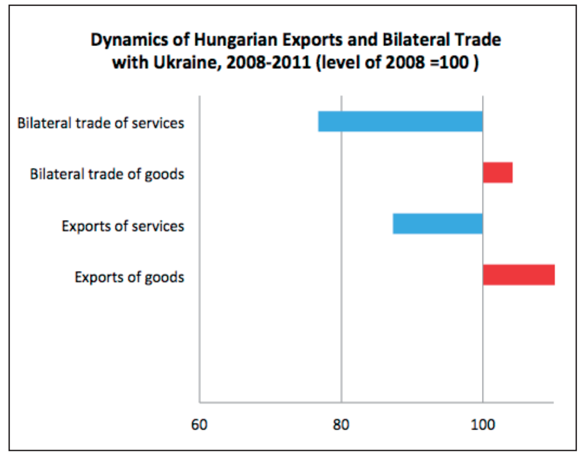
With 2.5M EUR between 2008 and 2010, China is the 6th largest ODA recipient to Hungary. The trend of ODA allocation is hard to analyse, since data is available for only 3 years, nevertheless it is possible to see that education and scholarships play a smaller role compared to the previous countries. China's BDA in 2008 consists of two larger sums (40% and 44% of the overall BDA) both humanitarian in nature, aiding the victims of the 2008 earthquake, and two smaller allocations (1% for education, 14% for international development).

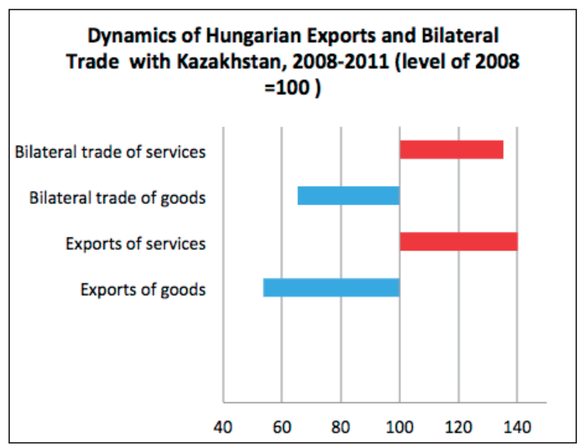
These sums amount to 4.5% of Hungary's total bilateral ODA in 2008. This figure almost doubled the next year when Hungary's total bilateral ODA to China reached 8.4%. The largest amount in 2009 (1M EUR, 76%) was allocated to the Hungarian-Chinese joint research fund and 3.1% to education and trainers exchange program. Interestingly, the funds seem to have been exhausted by 2010, as the Hungarian bilateral ODA to China decreased with 57% and accounting for scholarships, training, R&D, and trainers exchange programs.

Vietnam is among the oldest aid recipient partners to Hungary. The two countries' bilateral relations reach back to the 60's, when Hungarian and Vietnamese experts participated in technical cooperation programs. Vietnam still maintains a good relationship with Hungary, receiving an average 1.53% of its total bilateral ODA (see Annex 4). In 2005, Hungary and Vietnam signed a framework agreement on international development cooperation mainly aiming at know-how transition to modernize Vietnam's economic structure. The trend of BDA allocation shows a 53% increase from 2008 to 2009, although this was almost halved in 2010 increasing only 4% by 2011. In terms of sector, in 2008, 99% of ODA was counted by the MFA as 'exchange of experience' whereas in 2009 education and exchange costs were broken up in two distinct categories: 'Scholarships and Education' 22%, and 'Scientific and Technical cooperation' 39%. By 2010 BDA was markedly reduced providing 92% of the overall amount in scholarships and trainings. 2011 shows a similar distribution among the sectors with 81% going to education and 11%to governance and civil society.

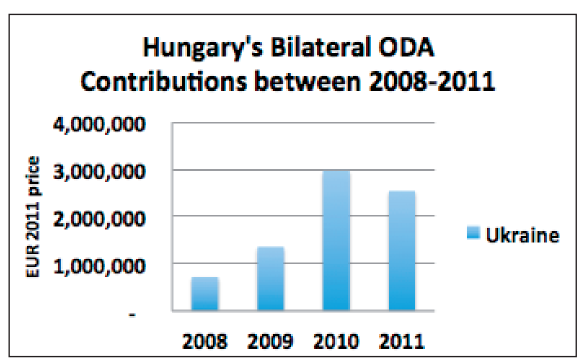
Ukraine and Kazakhstan

Ukraine is the most important trade partner for Hungary, not only because of its close proximity, but also because it is an energy transit country. In 2008 Ukraine absorbed 2% of Hungary's overall export, a sum that amounted to 1.4bn EUR, then in 2009 it decreased with 0.05% to 896M EUR, only to steadily climb back to 1.6bn EUR in 2011, a sum which accounted for 2.06% of the overall trade. Ukraine's relative weight of exporting services performed 13% below average during the period 2008 – 2011. The weight of Ukraine in the overall bilateral trade with Hungary rapidly decreased with 0.5% in the period 2008-2009, but climbed back to 1.7% in 2011 providing a 4% above the average dynamic. Ukraine's dynamic in bilateral trade in services showed a 24% below average performance between 2008 and 2011.

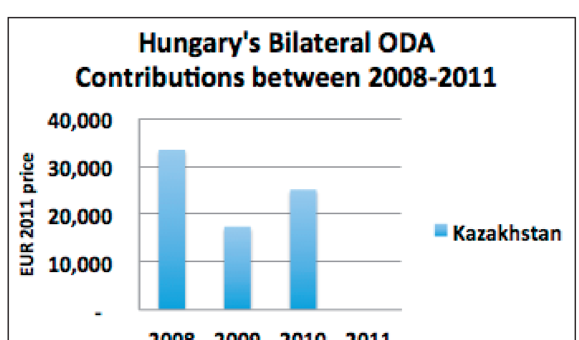




In spite of *Kazakhstan's* important position on the Foreign Policy agenda as an energy trade country, this position is not matched by its trade performance with Hungary. Its relative export weighted only 0.37% in 2008 and fell to 0.14% by 2009; it managed to climb to 0.18% in 2011. Export of services shows a slightly more optimistic trend with a 40% increase. Its overall weight in the bilateral trade decreased from 0.23% in 2008 to 0.15% in 2011, which implies a 36% below average performance. However, in terms of bilateral trade of services Kazakhstan's weight climbed from 0.4% to almost 0.6% showing a 35% increase compared to the average performance in this category.



The Hungarian export profile is rather similar to the above although one noticeable difference is that the Hungarian trade surplus is less significant because of the high volume of energy imports from Kazakhstan and the more balanced trade flows of machinery products with Ukraine. Besides pharmaceutical and machinery exports also food- and plastic-manufacturing industries play an important role.

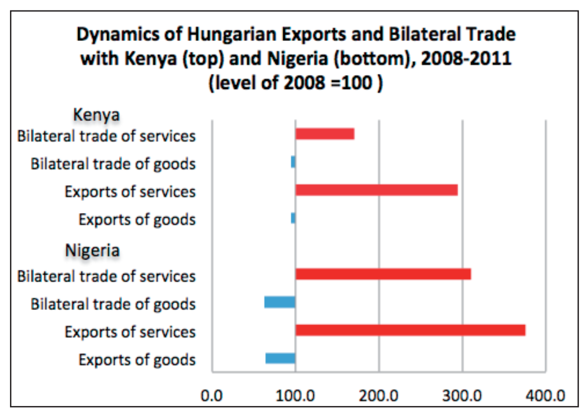


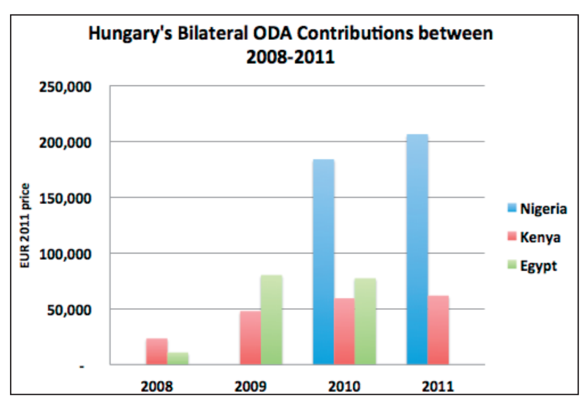
Within the timeframe analysed, 2008 to 2011, Ukraine is the 3rd most important recipient absorbing 13.27% of Hungarian BDA. It is also noteworthy that Hungary increased its BDA to Ukraine between 2008 and 2010 four-fold. While the highest portion of aid to Ukraine was humanitarian aid (52%) in 2008, education only received 15%. The portion of education type contributions usually contain scholarships, trainers exchange programs, and other cultural type projects. Their proportions to Ukraine make 82% in 2009, 86% in 2010(education and cultural), and 76% in 2011. This increased allocation of funding for the educational sector in Ukraine, which accommodates a substantial portion of Hungarian minorities, is arguably related to Foreign Policy goals to support Hungarian minorities outside the borders.

Kazakhstan is a low priority recipient country of Hungarian BDA accounting for only 0.14% between 2008 and 2010. Furthermore, it was not listed as a partner country in the 2011 official MFA documents. The trend of BDA allocations shows a slow decreasing pattern, losing 25% of its aid allocations during 2008-2010 periods. In 2008, 67% of the BDA allocated to Kazakhstan was project support labelled as 'democratic transition', providing capacity building to collect best practices on migration management issues and build partnerships. During the project the partners conducted expert missions and organized working group meetings in both countries. The remaining 30% of BDA to Kazakhstan was allocated for language trainings and 3% for scholarships. By 2009, allocated bilateral ODA was only half the previous years allocation, with most supporting English, French and German language trainings(90%) and scholarships (10%). In 2010 the entire bilateral ODA was labelled as 'scholarship, training, technical cooperation, training exchange', which makes it very difficult to establish whether technical cooperation or education benefitted of more support.

Egypt, Nigeria and Kenya

These African trade partners have relatively low trade weight in exports from Hungary, however exports of services to Kenya and Nigeria did go went through a notable transformation. Nigeria and Egypt weighted 0.1% and 0.2% respectively in 2008, while Kenya's trade involvement was only 0.02% of overall trade volume. Very different patterns are observed in the export of services, where both Kenya and Nigeria increased their exports of services from Hungary. Whilst Kenya accounted only for 17,000 EUR in 2008, in 2011 its export value increased to 500,000 EUR or 194% above the average. The very same tendency is observed in the case of Nigeria with a 275% increase of export of services. The pattern of bilateral trade with the three countries' shows very similar trends as all three performed below average between 2008 and 2011.





Hungarian foreign trade is especially unbalanced with the African countries. The volume of imports from Egypt, Kenya, and Nigeria covers less than 10% of the value of exports to these countries. In the case of Kenya and Nigeria the ratio is even below 1%(!). Machinery products dominate, but Hungarian companies also deliver significant amount of organic chemicals, plastic articles, textile products, ceramic products and furniture as well. The volume of Hungarian imports is significant from Egypt in agricultural, chemical and paper industry articles, and in the machinery, optical and ceramic products groups. We practically cannot mention significant import products from either Kenya or Nigeria – the only exception is the import of live trees from Kenya.

Among the three countries, Egypt is mentioned among the Middle-Eastern priority countries in the FPS, where Kenya and Nigeria are represented among the sub-Saharan countries. In terms of BDA allocation, Kenya is the only country to receive aid consistently during all four years. Nigeria received BDA only in 2010 and 2011, and Egypt received it in all years except 2011. All three countries received an equally low per cent of bilateral ODA from Hungary: Nigeria 0.33%, Egypt 0.25%, and Kenya 0.23% of the overall bilateral ODA on average for the 4 years.

Nigeria is an ODA recipient since 2010 and it has received most aid in the form of scholarships, 100% in 2010 and 99.8% in 2011; with the remaining 0.17% being allocated for technical cooperation and training.

In case of *Egypt*, the BDA contribution of 10,000 EUR allocated in 2008 increased eight times by 2009. A similar sum was allocated in 2010 (77,000 EUR) before Hungary discontinued the flow of aid. In terms of sectors, in 2008 the BDA consisted of 44% scholarships, 40% support for conference participation, and 16% to support the relevant official participation within the Hungarian-Egyptian Mixed Economic Committees. By 2009 the portion of scholarships and aid for education reached 82% of the overall BDA commitment to Egypt, with some support for the International Parliamentary Cooperation (12%) and 6% labelled as 'bilateral cooperation'.

Kenya, being the only consistent recipient of Hungarian BDA among the three countries, succeeded to increase its bilateral ODA by 163% from 2008 to 2011. In 2008 only the MFA that provided BDA to Kenya by supporting a safe drink-water project, equipment for an educational centre, and financing Slums Information Development & Resource Centres. In 2009, 66% of support went through various scholarships while the rest of 34% was spent on finalizing the previous year's three projects. In 2010 more than 99% of BDA was allocated for education, scholarships, trainings with only less than 1% for technical cooperation. The way ODA funds were allocated changed somewhat in 2011, when 21% of Kenya's bilateral ODA from Hungary was directed to the health sector, through a project looking to modernize a health care facility and provide medical equipment. Nevertheless, the remaining 79% was allocated, just as in the previous years, to education and scholarships.

Summary

Comparing the flow of trade and the flow of bilateral ODA allows us to identify certain trends and see whether aid allocations are directly financing or creating elevated export levels in recipient countries. Most significant trade flows are with Ukraine and Serbia, countries that also enjoy a substantial proportion of the Hungarian BDA. This raises the question, whether Hungary intentionally channels its aid to the countries with significant export potential to return its investment. If the intention is to improve economic relations with Ukraine and Serbia and to increase market access through financing economic, social, and institutional infrastructure, one could argue, that bilateral ODA is indeed linked to trade interests. However, the disproportionate amount of scholarships undermines this conclusion, as one would expect trade supporting aid to be channelled directly to infrastructure development rather than education.

If a country received increased bilateral ODA contribution in one year and performed above average in export of goods and services in the other or even the same year, one could speculate that bilateral ODA is to encourage bilateral trade and business. However, there is very little proof of such a tendency. There are only a few cases such as Ukraine, Serbia, Kenya and Nigeria, or China where the increase of ODA was followed by an increase in export of goods or services. This does not mean that there could be no potential in promoting trade through aid. Bilateral aid projects can attract certain business activities in the recipient country that could yield promising future business relations.

Other Trade Related Activities in Recipient Countries

Hungary's main participation in development assistance is providing scholarships, training programs, trainer exchange programs, and language acquisition. Hungary also provides know-how, capacity building and transfer of good practices in democratic transition and institutional development. These projects are generally focusing on neighbouring countries such as Bosnia and Herzegovina, Serbia, Montenegro, Macedonia and Ukraine, but also to a lesser degree in Kazakhstan, China, and Vietnam (MFA 2010).

As the interviews revealed, some development and capacity building projects are related to Aid for Trade, but they are not reported or managed separately. They do not constitute complex structured approaches, but rather belong to capacity building type projects. Unfortunately, at the moment, the MFA itself has limited capacity to strategically plan and design these projects. In spite of the fact that these trade type activities are not reported or represented separately, many bilateral projects are related to trade. Respondents mentioned technical assistance concerning customs tariff, tariff-management trainings, plant and animal health regulation courses and the incorporation of food and animal health standards into domestic law. These serve as examples as to how development projects earmarked as BDA are related to trade. Unfortunately, the MFA does not either frame Aid for Trade as a separate strategy or earmark these activities at each and every project report to the OECD.[20]

Facilitating Hungarian Know-How in the Agricultural Sector

The MFA together with the Ministry of Rural Development (MoRD) organized in 2011 a three-day training in the agricultural sector for the partners from Moldova, Georgia, Azerbaijan and Ukraine. The training aimed at increasing the coherence between the partner countries legal frameworks and the EU. Based on the needs of the EU's Eastern Partnership countries, the plant and animal health training was designed to facilitate information on the relevant EU regulations, and point out the areas where development was needed the most. The training was financed and jointly organized by the MFA DIDC and the MoRD with the local office of the Food and Agriculture Organization of the United Nations (FAO) providing technical experts.[21]

Cooperation between FAO and Ministry of Rural Development

The scholarship cooperation between MoRD and the FAO is considered one of the most successful projects. MoRD provides scholarships to students from DAC recipient countries that are strongly reliant on the import of food and agriculture products. The courses provide quality technical material on agriculture and food production technologies, animal health and other standards. There is a great need for such expert knowledge in developing countries in order to foster competitive sustainable farming and help increase export capacities. The courses provide quality technical material on agriculture and food production technologies, rural development, animal health and other standards. The students are mostly from the Balkans, the Eastern Partnership countries, CIS and Central-Easter Europe, Asia (mostly Afghanistan) and Africa. The list of eligible countries is revised annually. Focusing on these countries, there is a strong reiteration of old positive experiences. The FAO also maintains an Alumni Network to foster the use of Hungarian educated foreign professionals and create potential joint businesses. Business relations can lead to technology transfers to contribute to increase production effectiveness, hence provide support to enter export markets.

Technical assistance to trade policy – the CEFTA project

The Hungarian MFA and the OECD Investment Compact for South East Europe organized a joint roundtable meeting series in Budapest between 2006 and 2008. The overall objective has been to assist those party to the Central European Free Trade Agreement (CEFTA) to derive full benefits through the reduction/elimination of non-tariff barriers (NTB),particularly but not exclusively, those that impact the main trade flows (OECD 2011).

Besides facilitating these meetings, the Hungarian counterpart contributed by assisting with the identification, classification and prioritization of the most significant NTBs. It did this with particular emphasis on those NTBs identified by the business community as the most pressing. These findings provided the CEFTA sub-committee and the CEFTA Joint Committee with enough information to draft an action programme to reduce/eliminate the prioritised NTBs. The participants also agreed to further discussions

[20] Interview discussion notes 12/01/2013

[21] Interview discussion notes 09/01/2013

with the relevant CEFTA bodies and to continue the Multilateral Monitoring Framework assessment process over the next three years and extend the scope of the assessment to final goods in 2012-13(OECD 2011). The CEFTA roundtable meetings are considered one of the successful Aid for Trade projects, where Hungary utilized its accumulated trade related knowledge and technical experience.[22] It also played an important role as a facilitator, establishing the platform and creating the opportunity for the CEFTA countries to identify and classify technical and other barriers to trade, and eventually drawing a roadmap for their effective elimination.

Tied Aid

The governmental decision 1516/2012 (XI. 22.) regarding the concept and verifications of Hungarian Tied Aid has made it mandatory to utilize the tied aid credit opportunity provided by the Ministry of National Economy under the umbrella of "eastern incentive".[23] The main aim was to encourage exports and provide sufficient financial assets for the continuation of the Tied aid credits allowances. The Minister of National Economy is expected to assign the target areas for the 2012-2020 budgetary periods such as the Commonwealth of Independent States, South and Far-East Asia, the entitled African Regions, and the Western Balkans (Magyar Közlöny 2012).

Institutional Framework and Participating Institutions

To promote growth of export volume with direct support of State guarantee, tied aid credit is supported by a dual institutional export-credit system where financing and credit insurance are done by two separate institutions[24]. Hungarian Export Credit Insurance (MEHIB) provides insurance against the foreign debt payment, while Eximbank undertakes the pre-, and re-financing mechanisms, with preferential interest rate on export credit guarantee. Inconsistencies of technical guidance persist, since the institutional framework for external economics and trade in both cases of MEHIB and Eximbank remain under the supervision of the Hungarian Development Bank(MNE 2011). The institutional link between private sector and export is the State's background trade agency: the Hungarian Investment and Trade Agency (HITA). HITA is the responsible entity for external economic and trade related issues under the supervision of the Minister of External Economic Relations from Ministry of National Economy. The link between the private sector and HITA is supported by the Chambers of Commerce of Industry and Trade (MKIK), which provides a platform segmented into regional departments to foster entrepreneurial community network cooperation.

Inter-governmental Agreements for Tied Aid Credits

Because of the special requirements of the Hungarian system, two government decisions are needed to establish an inter-governmental agreement for the provision of tied aid credit agreements. Included in the agreement is the list of financed projects, which are tendered by the recipient country to establish documentation, regarding the financial and technical requirements for the project. The role of Eximbank – besides providing financial credit – is to consult potential companies about the requirements and possibilities. Companies then compete for the tender and if they win, Eximbank continues more detailed consultations. The ministry concludes the inter-governmental agreement but the negotiation of the credit compact falls within the sole jurisdiction of Eximbank. Eximbank – together with MEHIB – is also responsible to provide the bank guarantee for the advanced payment to the contractor company.

The prerequisite of tied aid credit is an official request from the Ministry of Finance from the recipient country to initiate an agreement with the Hungarian Government. According to the interviews, the motivation for such a request is often the result of the persistent networking and pressure applied on the recipient country government by Hungarian companies already rooted in that country. It is very important to emphasize, that

[22] Interview discussion notes 15/01/2013

[23] About the role of tied aid in the Hungarian international development policy in general see (Bartha 2013)

[24] Interview discussion notes 15/12/2012

there is a strong competition on the market of aid credit financing, and without the relevant connections and private sector pressure most of these agreements would not be realized.

Bottlenecks and Solutions

Hungary's bilateral economic relations are governed by the relevant EU standards, thereby leaving a marginal space for individual negotiations. Such bilateral agreements encompass technical or economic agreements with no legally binding power. The research did not find any specific trade policies between Hungary and ODA recipient countries. In terms of ODA allocations, Hungary's priority recipient countries are mostly its regional policy priority countries, where Hungary can exploit its comparative advantage in 'transitional experience'.

Bilateral Economic Relations

The External Trade Strategy as well as the Foreign Policy Strategy outlines priority countries and priority areas through which, the growth of Hungarian SMEs can be facilitated. The main goals of Foreign External Trade are to contribute to economic growth and employment ambitions (MNE 2011). The strategy fosters export acceleration, modernizing the export structure, providing impetus for domestic enterprises and encouraging greater foreign markets representation by winning strategic positions on international markets. To foster bilateral economic relations, the Foreign External Trade Strategy supports regional clustering through mixed economic and business committees.

As one informant noted, "some of the ambitions of the government's strategies to promote regional clustering are too good to be true. The underlying power relations remain hidden from the uninitiated eye."[25]

By looking at the preferred partner country selection much of the trends can be seen. In terms of regional priorities, the government's main objectives are: to achieve state security in neighbour countries, to maintain energy security, promote Hungarian economic interest and advocate for Hungarian minorities outside boarders. To a small extent environmental sustainability and the rehabilitation of the Danube region emerge as secondary policy objectives.

In Hungary's ambition to re-position itself in the global arena, most dominating discourses are economic representation, state and energy security. It highlights the set back of "western" political leadership(MFA 2011a) and the gradual emergence of economies – such as China, India, Brazil, South Africa or Indonesia. Hungary aims at surfing the waves generated by the shift in the global political arena as emerging economies secured their position in the world economy. The rapid economic growth of these countries increases their needs for energy, raw materials, and commodities. Hungary's objective is to promote the emergence of stable democratic states and at the same time to secure its position on the supply side of the equation as a potential provider for these emerging market economies. Humanitarian or more altruistic values are not high on the Hungarian Foreign Policy agenda; yet the increasing attention to Hungary's role as a development actor has a potential to induce a new sector in Foreign Policy. The coinciding fact that Hungary's main BDA recipient countries are among the important trade partners is not a unique phenomenon. Minoiu and Reddy argue, aid flows motivated by donors' geostrategic considerations, may not be extended to recipient countries for developmental purposes but rather to build and sustain political allegiances (Minoiu and Reddy 2009). In case of Hungary international development aid does not have its own strategy, hence it remains a foreign policy tool. Furthermore, Hungary being in an economic recession cannot afford the luxury to provide altruistic aid without an economic agenda. This is normal in the case of countries strongly impacted by the economic crisis. Fostering relationship with manageable economies implies a natural risk minimization. If countries are not indebted, and the chances to gain economic market advantage are present, the opportunity is there to be seized. Generally speaking, there is a positive reception of Hungarian produce but Hungary's potential mainly lies in the distribution of technological know-how. Bilateral economic agreements have a potential to provide a framework for such endeavours.

[25] Interview discussion notes 14/02/2013

To help elevate developing countries from poverty depends on, their own capacity to introduce domestic production of goods instead of importing them. Some donors are less willing to provide the technical knowledge for this process; therefore it is a market segment that could and should be utilized by Hungary.[26]

The research has found little direct evidence that bilateral economic relations and the consistency of national policies are effectively promoting an open rule-based equitable predictable, non-discriminatory bilateral trading system with ODA recipient countries. There are a few trade related development projects managed by the MFA and MoRD, but there was no evidence to indicate a direct link between national trade policies and the development projects. Hungary's development goals are not linked to reform steps of recipient countries sectoral policies; therefore, Hungarian development activities cannot achieve sustainable structural change in recipient country's trade liberalization. To the same reason, it is also difficult to indicate if the sustained trade regimes and trade agreements have been used to support the Millennium Development Goals of poverty reduction and sustainable development efforts.

Common type Non-Tariff Barriers to Trade

Hungary's external trade underwent a series of reforms in the last three years and the strong opening towards the East required the vertical re-structuring of trade. External trade and foreign policy aims to support sectors such as water management and agriculture-food industry where Hungary has comparative advantages and substantial production know-how. There are only a few companies that have the human, financial and network capacities to trade with new priority countries, and most of these trade practices are based on long standing business relations, hence trade barriers have either been eliminated or are clear in terms of procedures. The following barriers are the most commonly observed issues.[27]

Visa and other administrative types of barriers

The most common problem is to obtain the relevant visa and documentation to be able to operate in the recipient country and receive experts and specialists in the donor country. These formalities pose administrative barriers and time delays, which in the long run is not cost-efficient. Bilateral economic agreements do not have the jurisdiction to simplify visa type requirements; however, some government websites such as the MFA or HITA provide relevant information on how and where to get visa, what are the requirements, the costs and the timeframe.

Advancement and pre-financing problems

Some countries like Egypt can only provide 15% as advanced payment until delivery of goods, and payments afterwards therefore arrive in instalments. These practices can significantly increase risks and decrease producers' real capital to continue investment.

Limited Financing Opportunities

There is a lack of financing opportunities to start a business in host countries. In China, for example, the government provides generous start-up financing opportunities for domestic producers, delimiting the flow of foreign investment into the country.[28] Bilateral Economic Agreements foster joint R&D cooperation, which has the potential to turn into joint investments, which would benefit from both countries' government subsidies.

[26] Focus Group Discussion notes 30/01/2013

[27] Focus Group Discussion notes 30/01/2013; Interview discussion notes

[28] Interview discussion notes 20/01/2013

Other administrative barriers

Limited toolkit for external trade practices in recipient countries is a bar to effective administration processing. Similar observations were made for health administrative practices. One interviewed company noted that the recipient partner only receives the goods if the administrative paperwork and health permissions are validated by the Chambers of Commerce (CoC) of both countries. Another prevalent issue is the lack of use of International Commercial Terms which are widely used guidelines to avoid complications and misunderstandings in insurance costs and identify the risks associated with the transportation and delivery of goods.

Challenges in Hungary's Private Sector Capacity

The Hungarian economic and production structures went through a prolonged transformation process and while some companies gained strength in domestic markets, they still lack the know-how and experience to enter into the international market. Some interviewed private sector companies complained about out-dated external trade strategies, a lack of strategic state financing and administrative mechanisms and insufficient cooperation among state actors. All these weaknesses can extend the preparation time that they [companies] need to enter international markets.[29] Convincing private actors about benefits of external trade, as well as how to use given channels and financial mechanisms to enter external markets is a long and challenging process. The benefits of long-term market gains by winning external market segments are also not always clear.[30] Therefore, it is imperative to promote and strengthen sector 'clusterization' to start the learning process. Another prevalent problem is the limited lobby representation of SMEs, and the ancillary administrative processes that devastate much of the strength of the investment sector. There are specific programs managed by HITA to provide access to World Bank development initiatives. These initiatives have the potential to provide companies with relevant international experience, network connections and references to successfully compete for future tenders.

Most important areas to facilitate the involvement of Trade in Development

Coordination

Much of the sizable opportunities for the private sector to utilize Aid for Trade type activities depend on the coordinating structures. The survey results confirm that inter-ministry coordination is very important to increase the potential for joint projects and dissemination of potential tenders. As the interviews suggested coordination will not be part of the IDC strategy, as it cannot provide the division of labour between the line-ministries. However, the MFA will try to outline an Action Plan to determine the preferred direction of the IDC strategy and how the different institutional roles can support it.

Internal Assessments

There is also a great need for market assessment exercises to determine potential priority countries. The subsequent interventions areas can be established based on strategically selected priority countries. A capacity assessment would estimate the participating ministries' 'in-house' capacities and allocate the tasks according to available human and technical resources. A joint project assessment framework is needed to create a baseline for the inter-ministerial development activities and determine the sectoral intervention areas based on existing comparative advantages. These joint assessments should provide the baseline for strategically designed ODA budget.

[29] Discussion notes Focus group interview January 30th 2013

[30] Discussion notes Focus group interview January 30th 2013

Resource Mobilization

In terms of aid modalities, there is little flexibility. Hungary's contribution is dominated by project-based approaches, technical assistance, and scholarship type aid. There is very little hope for programming, or any advanced modalities, such as General Budget Support (GBS). Since these require a substantially larger budget, they can only be effective, if bilateral agreements entail a substantial volume in the medium to long-term period. GBS is a great mechanism if the annual budget is large enough, and the 'guarantee mechanisms' are built around to ensure accountability. Current aid modalities used by MFA are small scale, and not linked to reform steps of any of the sectoral policies of recipient countries. Therefore, Hungarian development activities cannot achieve sustainable structural change in recipient country, such as trade liberalization. Bilateral or multilateral agreements or export strategies could facilitate effective trade related activities, but if financial mechanisms to promote sectoral market access are missing, the sectoral lock-in effect will decrease the effectiveness of economic agreements.[31] Considering that the market presence of the private companies depends on the financing portfolio, if 'Automatizatized'[32] financing infrastructure is missing from the system, these capacities will remain un-tapped.

Policy Mainstreaming

In light of the above discussion, it is unlikely that the MFA will pursue joint reporting structures with line-ministries. Instead, ODA contributions may well continue to be developed around individual mandates and at the discretion of ministries. Second, having synergy between the different mandates is important, but since development goals such as poverty reduction are not explicitly mainstreamed into the FPS or SET, but exclusive to MFA's activities, Hungary's bilateral ODA budget remains fragmented and unevenly distributed. Hungary's comparative advantages related to development activities are somewhat reflected in the FPS and the SET, but they are not clearly explained. Finally, both monitoring and evaluation strategies are completely missing, trade related indicators are not directly linked to development policy; hence there is no connection between the development aid and trade.

Private sector involvement

The private sectors role would be to implement development projects, and to create an enabling environment for the sustainability of these projects. Preparing companies to penetrate external markets and act as service providers requires strategic positioning of SMEs in the IDC arena. This would require the increase of tendering capacities, encourage 'clusterization' and improve the requisite know-how to gain market access. In case of knowledge-transfer type projects, Hungarian development strategy should act as a bridge between Hungary and the partner country, to link product know-how and technology with consumers and induce business relations. Hungary's positive image in distributing technological know-how should be utilized through bilateral agreements. Recipient countries are in need of production know-how not financial aid.[33] To elevate countries from poverty they need to produce and export their own goods instead of relying on imports. Hungary, as a small country with limited finances could take advantage of this situation and through technical cooperation and knowledge transfer ensure a win-win scenario for both the donor and the recipient.

[31] Introducing and consequently applying open rule based equitable trade policies, Hungary has the potential to induce a change in trade related practices and sustainable market access for partner countries' in trade sectors where it has comparative advantage, such as agriculture. The lock-in effect occurs, when Hungarian companies that should conduct much of the trade under the relevant trade agreements cannot gain market access due to the lack of domestic financial mechanisms. Therefore, the potential to trade with recipient countries is either lost, or delayed until relevant financial mechanisms are introduced.

[32] The terminology used by one of the interviewees refers to the institutional infrastructure to automatically induce financial mechanisms to provide the needed financing for a project to initiate

[33] Focus group discussion notes 30/02/2013

Conclusions and Policy Measures

The overall conclusion of this report is without an international development strategy and with substantial financial and human capacity constraints of the MFA, Hungary's development activities are not exploited to their full extent.

There is an ongoing concern with the proportion allocated to BDA and the fragmentation of contributions. These lead us to believe that ODA is principally a statistical obligation towards the OECD, and that there is little legitimacy of ODA as a development contribution within the line-ministries. Better coordination over ODA utilization and the MFAs stronger influence within the public sector could promote the more strategic dispersion of these financial efforts from the relevant line-ministries. However, this would require reform of budgetary accountability and a shift of legitimacy to a joint ODA budgetary committee.[34] This is not very likely in the short run, even though bilateral aid can help achieve stronger ties between the donor and the recipient countries and develop a more characteristic donor profile.

In terms of BDA, the contributions of the MFA that are strategically applied as conscious development activities constitute only 5-7% of the annual BDA budget. On the other hand, over 30% of BDA goes to education and scholarships which does have a long-standing history in Hungary's development past. One motive could be that Hungarian educated professionals filling influential positions in partner countries can later be utilized for the benefit of both bilateral business and trade relations. No proper impact assessment or evaluation of such activity has ever been carried out though. A Hungarian educated diaspora can be a great asset for future business relations, with the understanding that these relationships need to be nurtured and maintained over time. Unfortunately, there was very little evidence of such activity; an Alumni network program exists only in case of the MoRD and FAO provided scholarships.

One heavily neglected area is monitoring and evaluation. While there are sporadic initiatives to monitor and evaluate projects, there is no overarching strategy or framework for such practices. Information about development projects should be collected and assessed on a regular basis to monitor progress and evaluate the effectiveness of delivery mechanisms.

Aid assistance is scattered across ministries with little coordination and strategic planning. To increase the potential of trade related aid, relevant public stakeholders should be more involved in development policy and planning. At the same time the role of private sector actors are completely neglected. The need for cooperation and coordination is of crucial importance to utilize technical capacities, existing in-country business networks, as well as the knowledge and experience of the private companies. This would require assessments of the capacity of relevant partner countries, relevant sectors and private stakeholders. Furthermore, to increase the potential of Hungarian SMEs within international markets, the opportunities to take part in prospective projects must be given greater publicity. HITA does maintain a database of Hungarian companies with international business potential, but the link to a database of conceivable tenders is undeveloped.

IPA or ENPI type development tenders can provide a great platform for Hungarian companies to gain international know-how and access development projects, but if the tenders are not analysed and promoted in an accessible format companies' access remains limited. A tender monitoring exercise could bridge this gap and connect possible implementers to upcoming projects. However, supporting financial mechanisms have to be available with advantageous financing solutions, such as pre-financing or project based financing. Some are already available at Eximbank's financial portfolio, but since the monitoring and evaluation of these modalities are not available, it is difficult to estimate their practicability.

In spite of the weak coordination between public stakeholders, the officials at the MFA are making substantial efforts to develop Hungary's international development profile. Altogether, the limited financial and human

[34] Interview discussion notes referred to a budgetary committee comprised of ODA relevant line-ministry reps., NGOs, and trade and business professionals

resources and rigid institutional regulations further delayed the progression of this portfolio. Hungary's main capacity lies in technological know-how, experience in economic transition, and in sectors such as agriculture and water management. Should the government decide to harvest these potentials through development assistance, it could also result in considerable market advantage. Small development projects should pave the road for larger business opportunities. It would be helpful to resolve the regulation of the support system to foster such initiatives. It is possible to map the progression and direction of economic development trends. If Hungary can move towards these regions where the need for this type of knowledge and production is present, it would be possible to break out from this unchanging environment. As one of the interviewee said:

"Unit of growth requires demand on corresponding levels of development as well. In the coming years 4-500 million people of the developing world will reach middle class Eastern European living standards and in 15 years they will want to shop and eat and live better. Everybody wants to supply these emerging markets…. the question is, who will get to them first?"

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Appendix 1. Sectoral priorities of the Hungarian Foreign Policy Strategy

Sectoral Approach

Foreign policy through the diplomatic relations is to support the governments' endeavours to increase the country's competitiveness in an international setting. The sectoral approach defines areas where Hungary's efforts are concentrated as priorities of Hungarian foreign relations to draw the contour of Hungarian foreign policy profile. The following six sectoral priorities are considered in the Foreign Policy Priorities to a different extent.

Economic interest representation

Economic interest representation is built on the Strategy of the National Ministry of Economics, to complement the EU trading policy and foster the representation of Hungarian trade interest. The economic interest representation also entails increasing the country's attractiveness for foreign investment. To this end, the MFA's objective is to develop and strengthen a positive country image.

Strengthening Security

A priority objective and constitutional role of the Government is to ensure the security, well-being and freedom of its citizens. The Ministry of Foreign Affairs (MFA) utilizes all diplomatic tools at its disposal to ensure the above objectives manifested in the National Security Strategy. This sector further supports the EU external and security strategy and all international activities conducted under the NATO framework and EU security policy.

Energy Security

The question of energy is of high importance therefore, the MFA's intention is to encourage projects that further the security of energy supply and strengthen the country's competitive position at the regional energy markets. These activities focus mainly on bilateral and regional level activities within the EU, but also work towards the utilization of relations with potential energy-source and transit countries.

Strengthening Community Rights of National Minorities

Delivering on a nationalistic objective, to strengthen the position of all Hungarian nationals outside the nations borders. It refers to the 2010 constitutional amendment that allows minorities with Hungarian ethnic descent to obtain Hungarian citizenship without settling on Hungarian soil. It stresses its aim to achieve harmonious relations with host countries, and reiterates the Hungarian Governments' commitment to pursue a consistent minority policy towards all countries with Hungarian minorities.

Interest Representation of the Agricultural Sector

Agriculture has been gaining a bigger share in the political diplomacy recently. Food security and food safety issues are receiving more attention globally, also because of the rising food prices caused by imbalances of global food demand and supply. Food security and agriculture are going to be strategic sectors also in the future; therefore Foreign Policy will focus on the interest of domestic consumers and producers equally. It will also support the achievement of the Government's rural development plans, GMO-free agricultural production and strengthen the role of agricultural produce and technology in our external trade policy. To reach these objectives Hungary has started to renew and strengthen its agricultural attaché network abroad, so far it includes 8 stations (Berlin, Rome, Madrid, Paris, Bucharest, Moscow, Peking and Astana). Hungary has excellent knowledge for high quality food production; therefore by sharing its expertise internationally it could contribute to improving food-security situation of other countries.

Fostering Sustainable Development

As it is stressed in the Hungarian Constitution it is a foreign policy priority to contribute to global sustainable development. This sector mainly focuses on settling environmental disputes and foster regional cooperation with neighbour countries. Priority countries in this sector are neighbour countries or countries part of the Danube strategy.

Appendix 2. Hungarian Bilateral Economic Agreements with Priority Countries

Ukraine

- Agreement on Economic Cooperation between the Government of the Republic of Hungary and Ukraine (2005)

Serbia

- Agreement on Scientific and Technological Cooperation (2005)
- Agreement on Economic Cooperation (2005)
- Agreement on the Establishment of the Hungarian-Serbian/Montenegrin inter-governmental mixed committee (2006)

Bosnia- Herzegovina

- Hungarian-Bosnian Agreement on Educational, Scientific and Cultural Cooperation (2005)
- Agreement on Economic Cooperation between the Government of the Republic of Hungary and the Council of Ministers of Bosnia and Herzegovina (2006)

Vietnam

- Economic Cooperation Agreement between Hungary and Vietnam (2004)
- Cooperation Agreement between Eximbank and Sacombank (2005)
- Tied-Aid Agreement or Inter-Governmental Agreement on the Establishment of Financial Cooperation Framework between Hungary and Vietnam (2008 and 2009)
- Bilateral Inter-Governmental Agreement on Development Cooperation (2005)
- Scientific and Technological Cooperation (2005)

Montenegro

- Agreement on Hungarian-Montenegrin Scientific Cooperation (2012)
- Declaration of the Establishment of Advantaged Political Partnership (2012)

Kazakhstan

- Agreement on Economic Cooperation between the Government of Hungary and the Government of Kazakhstan (2008)
- The Agreement supports the development of joint Hungarian-Kazakh business investments to foster the establishment of joint business forums

Kenya

- Cooperation Agreement between the Ministry of Foreign Affairs of Hungary and Kenya (2000)

Nigeria

- Cooperation Agreement between the Ministry of Foreign Affairs of Hungary and Nigeria (2001)

The Agreement on Economic Cooperation

The Agreements between the signatory governments provide the legal background for the development of bilateral economic relations and the establishment of Mixed Committees. The Economic Cooperation Inter-governmental Mixed Committee consists of state bodies, the Chambers of Commerce. The participatory bodies aim to foster bilateral economic relations in the area of trade, investment and to further cooperation between small and medium enterprises (SMEs) in the area of agriculture, food production, energy, environmental protection, transport, ICT industries, wood industries, metal industries and development of tourism. The economic relations are usually ensured by a number of agreements such as prevention of double taxation, investment protection, etc.

The Mixed Economic Committee

Committees provide the network base for bilateral economic relations, consisting of trade experts or representatives of Chambers of Commerce in the relevant industry sector. These committees have great potential to promote business interactions between the partners, but this potential depends on the aptitude, interests and motivations of the participating experts and chambers representatives. There were positive experiences in the water management cluster; however, some informants regarded these committees as merely protocol in character.

Agreement on Scientific and Technological Cooperation

The agreement aims to provide a bilateral framework for the cooperation between the countries' scientific institutions, including funding of joint projects, researches, scientists and students. It fosters the cooperation and development in science and technology, building technology parks, centres of excellence, etc.

Appendix 3. List of Acronyms

BDA	Bilateral Development Assistance
CEFTA	Central European Free Trade Agreement
CoC	Chambers of Commerce
CSP	Country Strategy Paper
DAC	Development Assistance Committee
DIDC	Department of International Development Coordination (NEFE-Fo)
EDF	European Development Fund
ENPI	European Neighbourhood and Partnership Instrument
EU	European Union
FAO	Food and Agricultural Organization of the United Nations
FPS	Foreign Policy Strategy
GBS	General Budget Support
GNI	Gross National Income
HDT	Historical Development Ties
HITA	Hungarian Trade Agency
ID	International Development
IDC	International Development Cooperation
IPA	Instrument for Pre-Accession Assistance
LDCs	Least Developed Countries
MDG	Millennium Development Goals
MEHIB	Hungarian Export Credit Insurance
MFA	Ministry of Foreign Affairs
MNE	Ministry of National Economy
MoRD	Ministry of Rural Development
NTBs	Non-Tariff Barriers

ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
PRSP	Poverty Reduction Strategy Paper
R&D	Research and Development
S&T	Scientific and Technical (Agreement)
SET	Strategy of External Trade
SMEs	Small and Medium Enterprises
TBTs	Tariff Barriers to Trade
UN	United Nations

Appendix 4. Hungary's Bilateral ODA allocations between 2008-2011

The First 21 Priority Recipients Countries of Hungary's Bilateral ODA Contributions

	Hungary's Avarage Bilateral ODA Contributions 2008-2011	
1	Afghanistan	32.38%
2	Serbia	19.27%
3	Ukraine	13.57%
4	Montenegro	5.19%
5	Kosovo	4.80%
6	China	4.29%
7	Bosnia and Herzegovina	2.51%
8	Laos	2.24%
9	Vietnam	1.53%
10	Moldova	1.06%
11	Palestinian National Author	0.90%
12	South African Republic	0.83%
13	Mongolia	0.64%
14	Jemen	0.42%
15	Ethiopia	0.40%
16	Nigeria	0.33%
17	Egypt	0.28%
18	Kenya	0.25%
19	Irak	0.14%
20	Kazahstan	0.14%
21	Macedonia	0.05%
	% of Overall bilateral ODA	91.23%

Source Own calculations based on MFA Report on International Development 2008-2011

Appendix 5. EU Trade Agreements

Short summery of EU trade agreements with priority countries.

The Western Balkans (Bosnia and Herzegovina, Macedonia, Montenegro, Serbia)

EU trade

Bosnia-Hercegovina, as other Western Balkans states, have been offered Stabilization and Association Agreements (SAAs) and have a clear EU perspective. The EU's strategy includes massive financial assistance, making it by far the largest donor to the region. (EC Source) The EU signed the bilateral agreement on Bosnia and Herzegovina as accession to the WTO (2012), which is a key step for the country to become a WTO member. The WTO accession negotiations with Serbia are ongoing. The trade part of the Stabilization and Association Agreements (SAAs) came into force through an Interim Agreement with Bosnia and Herzegovina (2008) and Serbia (2010), and allows the countries to use materials originating fro the EU under advantageous conditions in the manufacture of final goods, which are exported to the European Union. In 2000, the EU granted autonomous trade preferences to all the Western Balkansuntil 2015, allowing nearly all exports to enter the EU without customs duties or limits on quantities. The only exceptions, are wine, baby beef and certain fisheries products enter the EU under preferential tariff quotas.

Asian Countries: China and Vietnam

EU trade China

One of the largest traders in the world, China is the 2nd trading partner to the EU. The constantly growing industrial and trade sector makes China a desirable trading partner, however this desire is shadowed by a number of concerns. The EU's position is that due to strict domestic industrial policies and non-tariff measures, foreign companies might be exposed to discrimination in China. Also because of strong state intervention in the economy creates a preferential environment for state owned enterprises leaving private or foreign enterprises excluded from access to subsidies or cheap financing. Furthermore, regulative measures to promote the proper enforcement of intellectual property rights in China are not stringent enough to EU standards. China also sustains significant export restrictions on raw materials, such as rare metal substances that hamper the flow of trade in all sectors. Regardless of such inconsistencies, its rapid development and the substantial potential for growth and economic expansion, the Chinese market is an attractive proposition offering huge opportunities to further trade, investment on the bilateral scale. The EU remains firm to launch negotiations on a bilateral investment agreement to create a forward-looking initiative, to promote bilateral investment by providing transparency, legal certainty, and market access to investors from both sides.

Ukraine and Kazakhstan

EU trade Ukraine

The key to Ukraine's economic growth is its close integration to the EU in the political and economic sense. These aspirations are covered under the Deep and Comprehensive Free Trade Agreement (DCFTA) with EU, which were launched in 2008 and initialed in 2012.The EU is one of the important commercial partners to Ukraine, and accounts for about one third of its external trade.Ukraine's is the primary exporter of iron, steel, mining products, agricultural products, and machinery to the EU. Where the EU exports to Ukraine are dominated by machinery and transport equipment, chemicals, and manufactured goods.

Egypt, Nigeria and Kenya

EU trade Egypt

Part of the Euro-Mediterranean partnership, the key objective of the trade partnership is limited to trade in goods and a number of bilateral negotiations are on going or being prepared in order to deepen the Association Agreements. The most important goal for the Union for the Mediterranean is to establish a common area of peace, stability, and shared prosperity in the Euro-Mediterranean region. Since 2004, EU-Egypt bilateral trade has more than doubled and reached its highest level ever in 2011 (from EUR 11.5 billion in 2004 to EUR 23.3 billion in 2011) (EC) dominated mainly by energy, chemicals and textiles and clothes and mainly of travel services and transport. The main export to Egypt consists mainly of machinery, transport equipment and chemicals, business services.

LATVIA

1. Introduction to Latvian ODA

Latvia inaugurated its ODA program after gaining independence from the Soviet Union in 1991. "An important aspect of this development assistance was that it was mostly multilateral aid, which was transferred to international organizations. Until now multilateral aid has been predominant within Latvia as demonstrated by her payments to international aid organizations between 2002 and 2004 which have formed more than 90% of the total amount of aid. In 2004 it even reached 97%".[1] The rest of ODA has been implemented bilaterally through different technical assistance projects.

In line with international and EU development financing commitments Latvia has striven to reach 0.17% ODA/GNI level by 2010 and 0.33% ODA/GNI level by 2015. However, in 2010 Latvia's ODA amounted to 8.3 million LVL representing 0.06 % ODA/GNI, and in 2011 Latvia's ODA amounted to 9.7 million LVL, representing 0.07% of GNI. Latvia is lagging behind international targets set for its ODA amounts (see Table 1 below).

Table 1. Latvian ODA/GNI

Year	ODA/ GNI	Total (million LVL)
2001	0.019%	1.1
2002	0.01%	0.6
2003	0.008%	0.5
2004	0.06%	4.8
2005	0.07%	5.7
2006	0.06%	6.7
2007	0.06%	8.2
2008	0.07%	10.5
2009	0.08%	10.5
2010	0.06%	8.3
2011	0.07%	9.7

Source: Ministry of Foreign Affairs[2]

[1] http://politika.lv/article/the-european-union-and-development-aid-a-case-study-of-the-republic-of-latvia

[2] http://www.mfa.gov.lv/en/policy/DevelopmentCo-operation/finance/

Institutional Framework

Unlike the Czech Republic or Poland, Latvia does not have any past development co- operation experience. Indeed, the term "development cooperation" did not exist in Latvia's foreign relations discourse until 2003. Also with regard to the organizational setup, with non-existent development aid policy, until 2004 there was no separate unit in the Ministry of Foreign Affairs [MFA] to deal with development aid, and payments to international organizations were governed through the MFA department responsible for investment and international economic issues".[3] After Latvia's accession to the EU, ODA management developed considerably within the MFA, growing to a separate department consisting of 9 staff members, though this was cut considerably in 2009 as a result of the financial and economic crisis in Latvia. Currently, there is no separate department in MFA to deal with ODA issues. Instead there is a division where 3 staff members manage ODA, of which bilateral aid has become only a tiny part.

Bilateral Development Aid (BDA) is scattered among various Latvian ministries, and is accordingly financed by various ministries. Cooperation among the ministries regarding BDA is secured via the Consultative Council, which consists of 13 ministries, national level associations, NGOs, and other members, totalling 22 members in all, and which aims to strengthen Latvia's role as a bilateral donor, as well as to educate society about the objectives of development assistance.

BDA statistics, which are gathered by the MFA, also include Latvian participation in international projects financed by international fund providers and the budgets of ministries or the MFA.

Type of BDA

In the initial stage after 1991 when Latvia's ODA was mainly multilateral aid (up to 97%), there was a certain focus on poverty eradication as one of the major goals for BDA. In 2005 Latvia's BDA included aid to e.g. Pakistan amounting 11.60%, as well as ad hoc help to Indonesia of 19.37%. But gradually as already noted by Rostoks (2006), poverty eradication slipped off the priority list.[4]

What has been very clear in terms of BDA since then are aid activities "connected with democracy, integration and reforming public administration. Thus, Latvia's success in case experience transfer (democratization and integration in the EU) remains a key activity in Latvian development aid, and Latvia is therefore called a "democracy export country".[5] As seen by the MFA, **aid for trade has not been the interest of Latvian BDA**, although it has appeared on Latvia's aid agenda via market economy reforms, capacity building, promoting food quality standards and so on.

Focus on aid for trade has been a top-down process, and Latvia is taking into account the EU's position to strengthen trade capacities in its BDA recipient countries, and consider how trade policies can help to achieve ODA.

Policy Development: Geographic Coverage of BDA

Latvia's bilateral development cooperation and aid has been formulated in policy documents since 2003 when Basic Principles for Development Cooperation Policy approved by Cabinet of Ministers Order No. 107 of 19.02.2003 were established. These identified the priority region as the CIS and the Balkan States.

In 2005 a significant element in formulation of the Development Cooperation Plan was the EU New Neighbours policy, which partly encompassed the priority region of Latvia —specifically, the Ukraine, Moldova, Georgia and Belarus. In view of contacts that have developed to date, foreign policy direction, the presence of Latvian embassies in these countries, as well as other factors, Georgia, Moldova, the

3 http://politika.lv/article/the-european-union-and-development-aid-a-case-study-of-the-republic-of-latvia

4 http://politika.lv/article/the-european-union-and-development-aid-a-case-study-of-the-republic-of-latvia

5 http://politika.lv/article/the-european-union-and-development-aid-a-case-study-of-the-republic-of-latvia

Ukraine and Uzbekistan were identified as priorities. The Plan mentioned that it was also in the interests of Latvia to promote cooperation with Belarus; however, at present cooperation may be undertaken only in specific areas, such as promotion of a democratic and civic society, cargo transport, and environmental protection.[6]

In 2006 the Plan stated that it was essential for Latvian development cooperation policy to concentrate on a smaller number of cooperation countries. Therefore, Moldova and Georgia were identified as priorities, in view of previously established contacts, the direction of foreign policy of these countries, the wish expressed by these countries to cooperate with Latvia, territorial proportions, the status of these countries as developing countries, and other aspects. Cooperation with Belarus remained at the same status as in 2005.[7]

In 2007 considering limited financial means and in order to increase the effect of Latvian assistance, Georgia and Moldova remained priority countries for development cooperation. Additionally, Ukraine was included as a country with which Latvia has an interest in pursuing development cooperation, and Belarus remained on the agenda where civil society and environmental protection activities could continue. In addition to these countries, Afghanistan and Kosovo have been nominated for implementation of development assistance projects in post-crisis situations.[8]

In 2008 Latvia did not increase the number of priority countries. Priority countries continued to be Moldova, Georgia, the Ukraine and Belarus. In addition to those countries, Afghanistan was identified as an anticipated recipient of a post-conflict reconstruction project at a location where a contingent of the Latvian Armed Forces is presently serving.[9]

In 2009 and 2010 due to the financial crisis and consequent budgetary cuts the intensity of development cooperation activities slowed in comparison with the previous year. However, Latvia continued to implement development cooperation projects in its priority countries. In 2009, development cooperation project recipient countries were Georgia, Moldova and Ukraine. In 2010, development cooperation project recipient countries were Moldova and Afghanistan.[10]

In 2011 the consequences of the financial crisis remained, and the priority countries for Latvia's development cooperation remained the same.[11]

In 2012, in view of limited funding, only one beneficiary, Moldova, was singled out as a priority country for that year[12].

To conclude, during the period from 2004 to 2012, Latvia carried out its BDA policy in the following priority partner countries: Georgia, Moldova, Ukraine and Belarus, as well as in Afghanistan. Despite clear political priority focus by the MFA, real spending by other ministries in Latvia reveals a different picture. A wide variety of countries receive Latvian BDA (see Picture 1 below).

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6 http://polsis.mk.gov.lv/view.do?id=1456

7 http://www.mfa.gov.lv/en/policy/DevelopmentCo-operation/BasicDocuments/PolicyPlan-2006/

8 http://www.mfa.gov.lv/en/policy/DevelopmentCo-operation/BasicDocuments/PolicyPlan-2007/

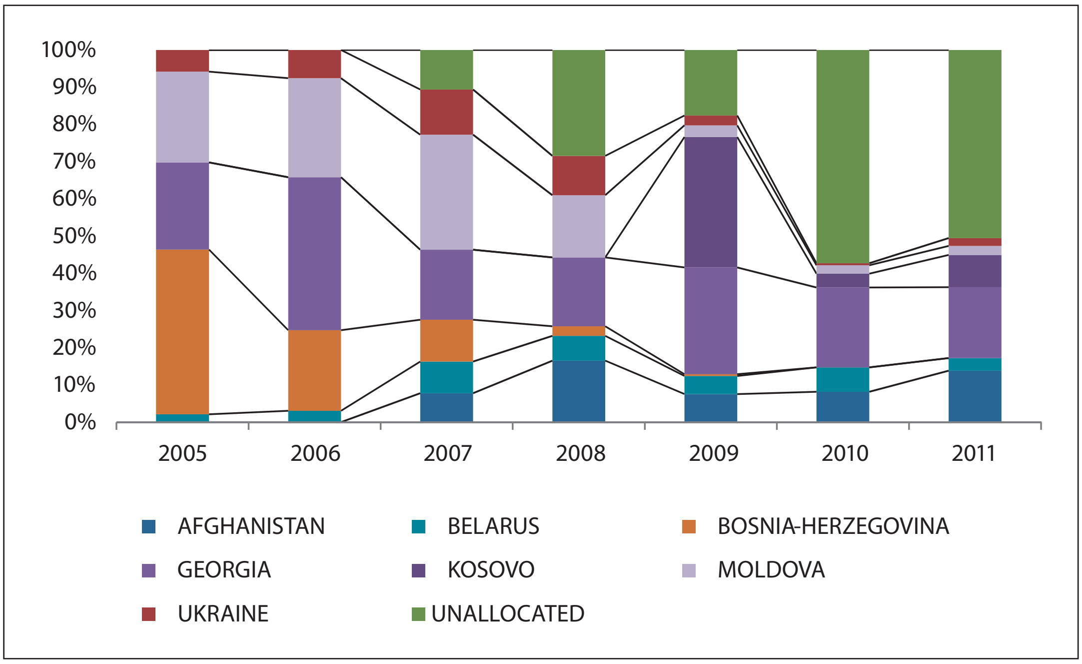
9 http://www.mfa.gov.lv/en/policy/DevelopmentCo-operation/BasicDocuments/PolicyPlan-2008/

10 http://www.mfa.gov.lv/development%20cooperation%20strategy%202011-2015_eng.pdf

11 http://www.mfa.gov.lv/lv/Arpolitika/Attistibas-sadarbiba/palidziba/palidziba-2011/

12 http://www.mfa.gov.lv/lv/Arpolitika/Attistibas-sadarbiba/palidziba/

Figure 1. Share of Latvia's major BDA recipients



Source: Ministry of Foreign Affairs[13]

As can be seen from Picture 1, Bosnia-Herzegovina and Kosovo are considerable BDA receivers from Latvia compared to priority countries, where activities are mainly from the Latvian Border Guard, the Ministry of Defence, the State Police, the Ministry of Internal Affairs and others. The scope of countries to which Latvia provides BDA via its ministries is rather wide.

However, analysing the "aid density" of Latvia's State institutions, one can see that the number of ministries and state agencies pursuing BDA projects in Latvia's ODA priority countries has been growing year by year since 2004. This dynamic of a growing number of ministries involved in BDA activities can be observed in the case of Georgia, Moldova, Ukraine and Belarus. Afghanistan is the exception, where Latvian BDA is solely the concern of the Ministry of Internal Affairs (Border Guards). In the case of Bosnia-Herzegovina, the number of ministries and state agencies involved is not growing. Projects in Bosnia-Herzegovina are mainly under the responsibility of the Ministry of Defence and the Ministry of Internal Affairs, while in Kosovo the number of ministries and state agencies providing BDA is growing in a similar way as in priority countries. Considerable growth in the number of ministries and state agencies involved in providing BDA can also be seen in Azerbaijan, which in some years exceeds the number of institutions involved in BDA in priority countries.

However, the dynamic that can be observed in terms of "density" of ministries and state agencies involved in BDA in priority and other countries is not translated in the amount of BDA. Thus, the highest share that Azerbaijan has received from Latvia's BDA share is 2.16% in 2007, dropping to 1.30% in 2011. In the case of Bosnia-Herzegovina, this started as the leader of Latvia's BDA, in 2005 receiving 27.25% of total BDA, dropping to 0.02% by 2010. The BDA amount in priority countries has been most stable in Georgia, Belarus and Afghanistan, while the crisis in 2008 considerably impacted Latvia's BDA to Moldova and Ukraine.

Since 2005 Latvia has increasingly focused BDA on its priority countries, although a considerable part of BDA remains outside formal priority (e.g. Bosnia-Herzegovina). Thus, BDA focus among various ministries

[13] http://www.mfa.gov.lv/lv/Arpolitika/Attistibas-sadarbiba/palidziba/

and state agencies has not been very strict, and variations outside official BDA policy in terms of BDA geographical coverage have remained rather high.

Impact Measurement

Latvia does not measure the impact of its BDA in priority countries or any other aid-receiving country. This is explained by the small amounts of aid that are channelled through Latvian ministries and state agencies. Therefore, there are no data to rely on when discussing Latvian BDA on trade regimes in aid-receiving countries. However, the MFA emphasizes that aid activities are implemented in accordance with aid recipients' interests, though it is not possible to determine the progress that aid has caused in regard to trade regimes because these are two different areas which cannot be linked because many things are influenced by the political situation rather than how efficient or non-efficient aid has been.

2. Current State of Bilateral Trade and Applied Trade Regimes

Legal Background: Trade Agreements

Latvia's development of bilateral economic relations is in accordance with WTO and EU rules and regulations on trade. The following trade agreements as illustrated in Table 2 are binding on Latvia when cooperating with its priority countries. The OECD also plays an important role in setting the rules for trade liberalisation and sustainable development by implementing an Aid-for Trade initiative.

Table 2. Trade related agreements

Latvia's BDA Priority Countries	WTO	FTA	EFTA	CEFTA
AFGHANISTAN	Observer			
BELARUS	Observer	Negotiations	Negotiations	
GEORGIA	2000			
MOLDOVA	2001			2007
UKRAINE	2008	Negotiations	Yes	

Source: WTO, OECD, EFTA, EC Homepage

As to bilateral trade and cooperation agreements with priority countries Latvia has signed the following bilateral documents:

Moldova and Latvia signed a development cooperation agreement **in 2006.** This describes major directions for joint cooperation, including promotion of civil society and democracy, market economy development, support to governance structure reforms and state institutional capacity growth, environmental protection, education, social development and health, as well as legal and internal matters. Trade as such is not highlighted but general governance reforms and market development can be considered as aligning with aid for trade. **In 2007 a** joint agreement was signed covering cooperation in science, production and economics, mainly focusing on fostering economic ties between the two countries, and strengthening the capacities of both countries; also an agreement for cooperation in IT related issues.[14]

Georgia and Latvia signed a joint cooperation agreement **in 2005** covering cooperation in science, production and economics, mainly focusing on fostering economic ties between the two countries, and strengthening the capacities of SMEs in Georgia and Latvia. In the same year, a joint agreement on

[14] http://www.am.gov.lv/lv/Arpolitika/bilateral/?mode=out&state=MDA&title=&branch=0&day1=dd%2Fmm%2Fyyyy&day2=dd%2Fmm%2Fyyyy&status=0&day3=dd%2Fmm%2Fyyyy&signer=

facilitating investments between the two countries was signed while **in 2010** an agreement was signed for know-how exchange and IT development in sectors such as production, science, and others.[15]

Belarus and Latvia signed a joint cooperation agreement **in 2004** covering cooperation in science, production and economics, mainly focusing on fostering economic ties between the two countries, and an agreement for energy cooperation **in 2009.**[16]

Ukraine and Latvia signed a joint cooperation agreement **in 2004**, covering cooperation in science, production and economics, mainly focusing on fostering economic ties between the two countries, and an informatization cooperation agreement **in 2006.** Latvia and Ukraine signed an agreement on transit, including use of ports and other transportation infrastructure, **in 2010.**[17]

There are no bilateral agreements between **Afghanistan and Latvia**.

Institutional Framework

Bilateral economic relations between Latvia and its priority countries for BDA are determined by European level legal norms and standards. Trade relations with BDA priority countries are governed via an Inter-governmental Commission, which covers a wide spectrum of questions related to economic, cultural and scientific issues. Additionally, entrepreneurs' forums are organised within the framework of the Inter-Governmental Commission. Entrepreneurs' forums are ad hoc organised forums for strengthening bilateral trade relations between Latvia and any other country. These forums highlight trade related challenges and problems, and determine solutions. Nevertheless, the forums are ad hoc activities initiated by any of the countries involved and they lack programmatic action. No follow-up activities or mechanisms are established to keep the forum network together, leading to lack of long-term commitment after the forums from entrepreneurs or state institutions. Trade problems identified remain at ministry level, which is too broad to facilitate specific problem solution: trade-related problems should be solved at the level of specific institutions.

When analysing human resources employed in trade, aid and development issues, at the Ministry of Economics no international trade experts are to be named, which means the amount of employees dealing with trade, development and aid is very small.

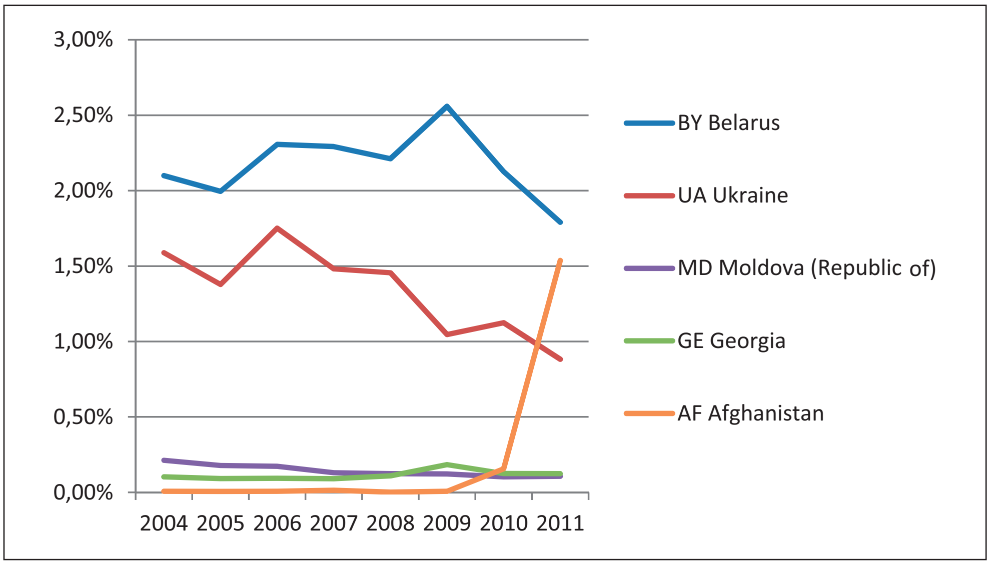
Analysis of institutional representation of the Latvian Investment and Development Agency (LIAA) shows that it is currently represented in Ukraine and Belarus only. The Agency is planning to open a new representation in Azerbaijan. To a certain extent the location of LIAA agencies reflects the focal points of Latvia's trade interests. In this respect only Ukraine and Belarus of all priority countries are significant in terms of Latvia's interest in increasing mutual trade. This is also reflected in Picture 2 below where Georgia and Moldova reflect rather stable and non-dynamic export flow at rather low rating, while Belarus and Ukraine are more notable trade partners for Latvian exports, though at a diminishing rate since 2010, which could be explained by the Latvian economic and financial crisis. The only exception is Afghanistan, which illustrates sharp growth in exports since 2010.

15 http://www.am.gov.lv/lv/Arpolitika/bilateral/?mode=out&state=GEO&title=&branch=0&day1=dd%2Fmm%2Fyyyy&day2=dd%2Fmm%2Fyyyy&status=0&day3=dd%2Fmm%2Fyyyy&signer=

16 http://www.am.gov.lv/lv/Arpolitika/bilateral/?mode=out&state=BLR&title=&branch=0&day1=dd%2Fmm%2Fyyyy&day2=dd%2Fmm%2Fyyyy&status=0&day3=dd%2Fmm%2Fyyyy&signer=

17 http://www.am.gov.lv/lv/Arpolitika/bilateral/?mode=out&state=UKR&title=&branch=0&day1=dd%2Fmm%2Fyyyy&day2=dd%2Fmm%2Fyyyy&status=0&day3=dd%2Fmm%2Fyyyy&signer=

Figure 2. Part of Export rating from 2004 to 2011, thousands LVL

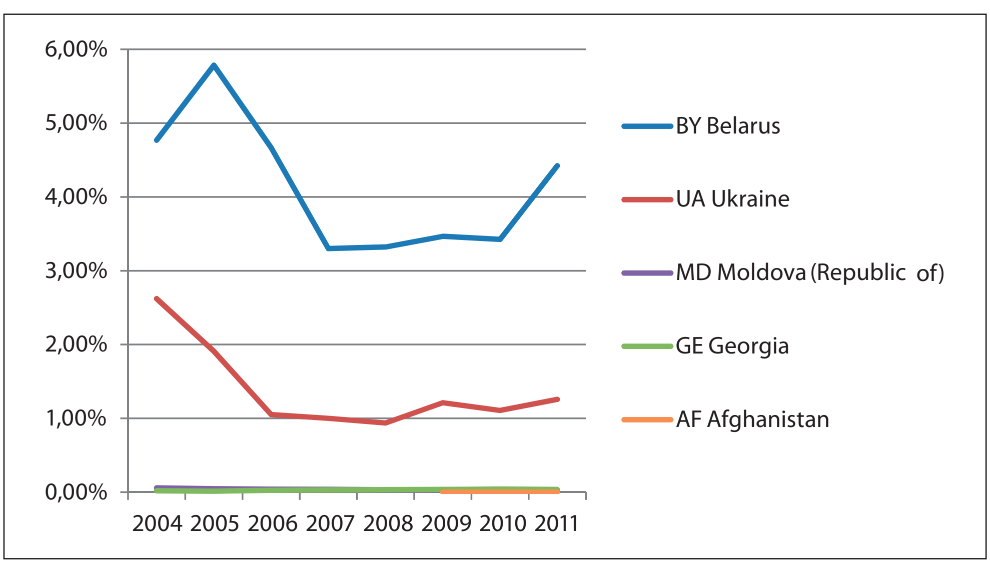


Source: CSB[18]

The dynamics of imports also reveals Belarus and Ukraine as major trading partners among priority countries (see Picture 3 below). While exports to Afghanistan have increased considerably, imports to Latvia have remained close to zero over the years, the same as in the case of Moldova and Georgia, which means sluggish trade growth related dynamics from those three countries.

Closer examination of import dynamics in Belarus and Ukraine reveals minor growth in the period 2004-2005 followed by a sharp decrease which remained constant until 2010 when growth in imports from Latvia in those countries could be observed.

Figure 3. Part of import rating from 2004 to 2011, thousands LVL



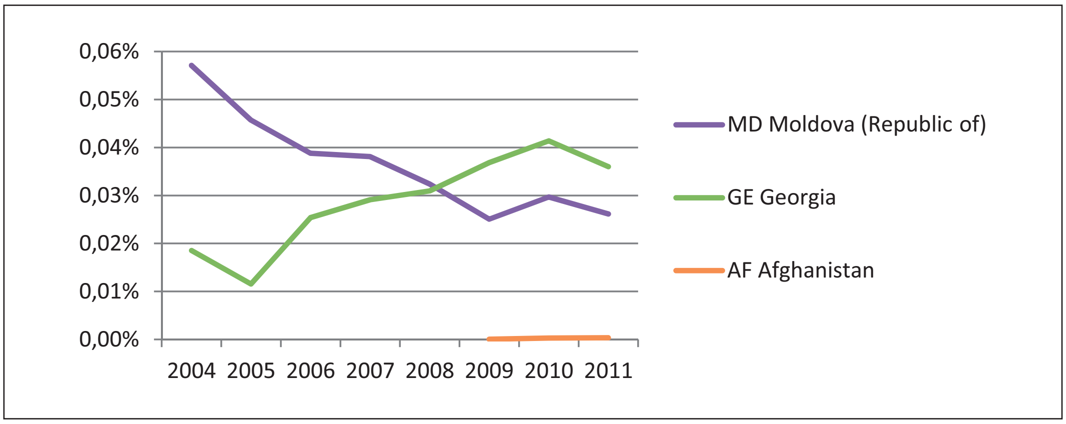
Source: CSB[19]

[18] http://www.csb.gov.lv/en/notikumi/foreign-trade-latvia-2011-33249.html

[19] http://www.csb.gov.lv/en/notikumi/foreign-trade-latvia-2011-33249.html

Closer examination of the dynamics of imports to Latvia shows minor positive growth in imports from Georgia (see Picture 4 below) while imports from Moldova have gradually decreased but imports from Afghanistan have remained constant.

Figure 4. Part of import rating from 2004 to 2011, thousands LVL



Source: CSB[20]

Trade Structure

Upon closer examination of the import and export figures, we can see that the trade structure between Latvia's BDA priority countries differs considerably.

As can be seen in Table 3, mineral products constitute the major share of exports to Afghanistan. Imports mainly consist of vegetable products.

Table 3. Imports from and Exports to Afghanistan

Main exports to Afghanistan by type of goods 2010, USD

Type of good	**USD**	**Proportion of total exports**
Total	14 683 348	100%
Mineral products:	13 872 573	94.48%
*Petroleum oils and oils obtained from bituminous – 100%		
Transport:	432 573	2.95%
*Special purpose motor vehicles – 54.51%		
Machinery and mechanical appliances, electrical equipment:	168 564	1.15%
*Automatic data processing machines and units – 43.11%		
Optical appliances and instruments (including medical), watches, musical instruments:	70 483	0.48%
*Physical or chemical analysis equipment and appliances – 52.14%		
Plastics and plastic articles, rubber and rubber articles	41 427	0.28%
Raw hides and skins, leather, fur and articles made of these	26 471	0.18%
Miscellaneous manufactured articles	25 940	0.18%
Textiles and textile articles	17 069	0.12%

[20] http://www.csb.gov.lv/en/notikumi/foreign-trade-latvia-2011-33249.html

Main imports from Afghanistan by type of goods 2010, USD

Type of good	USD	Proportion of total imports
Total	28 952	100%
Vegetable products:	22 663	78.28%
*Grapes, fresh or dried – 100%		
Machinery and mechanical appliances, electrical equipment:	6 289	21.72%
*Monitors and projectors, radio equipment spare parts – 100%		

Source: MFA[21]

Analysis of Latvian exports and imports to other priority BDA receiver countries shows a more elaborate trade structure, meaning that more products in various categories are imported and exported.

Trade with Moldova and Georgia is structurally rather similar. To those countries Latvia exports mainly:

- pharmaceuticals
- food
- machinery

and imports mainly:

- food (incl. wine from fresh grapes) and water (incl. mineral water)
- vegetable products (incl. nuts)

The trade structure with Belarus and Ukraine is different, in terms of exports from Latvia involving mainly:

- machinery and mechanical appliances, electrical equipment
- transportation
- chemical and allied production
- textiles and textile articles
- food industry products
- metals and metal products

The main imports are:

- mineral products
- metals and metal products

In total, Latvia's trade balance with Georgia and Moldova shows a minor positive surplus, with Afghanistan there is considerable trade surplus, while Latvia's trade balance with Ukraine and Belarus is negative.

3. Other Trade Related Activities in Recipient Countries

Latvia's contribution to trade related activities in recipient countries could be best defined as transfer of know-how. Since in terms of trade policy Latvia follows EU rules and guidelines, and does not take initiatives for support via infrastructure development, this Chapter will mainly focus on Latvian transfer of know-how, good practices-specific projects and technical assistance for trade policy development.

[21] http://www.mfa.gov.lv/lv/Arpolitika/divpusejas-attiecibas/Afganistana/#ekonomika

- **Major know–how in demand from LV: food and environmental sectors**

Major know-how in demand from Latvia in recipient countries is standard development for food industries, as well as environmental protection. Those two sectors are considered as success sectors in Latvia, and recipient countries require implementation practices for various regulations and standard setting.

- **Participation in larger scale projects**

Besides its own transfer of know-how, Latvia is a frequent participant in other donor country projects financed by Sweden, Norway, Germany and France. Latvian experts then participate with their experience, usually in the field of planned economy to market economy transformation.

- **Specific projects by institutions**

In general few institutions are actually involved in projects related to aid for trade.

Food Standards

The most interested BDA recipient country in Latvia's experience for implementing EU directives is Georgia, which has been extensively cooperating with the Latvian Food and Veterinary Service. However, to what extent changes have been implemented is not clear due to absence of follow up activities.

The Food and Veterinary Service has also transferred its know-how in Belarus and has invested in research for Moldova's needs. Cooperation with Moldova has not yet occurred due to post-crisis financial constraints.

With respect to food standards private companies working in the food sector do invest in know-how transfer since this is a precondition for business success. Those private company activities are not, however, coordinated with Latvian state agencies involved in the food sector.

Labour Legislation

The Latvian Employers Confederation (LDDK) has extensive international scope, having been involved in know-how transfer in various countries and regions but mostly in Eastern European countries.

One of the drawbacks for Latvian know-how transfer is that laws and regulations developed in Latvia are not available in Russian. Thus, much of LDDK's work is related to translating laws and regulations into Russian, explaining how those regulations work. Countries interested in receiving help in labour legislation related issues according to LDDK are Georgia, Azerbaijan, and Turkey.

National Development Strategies & Capacity Strengthening

The Corporate Public Management and Consulting group (CPM) is a provider of technical assistance for public sector organizations, and works on improving administrative capacity at the frontier of the European Union: in New EU Members and Candidates, the Western Balkans, the CSI and the other countries of the Neighbourhood Policy.[22] This is a private institution which has extensively worked in Bosnia-Herzegovina framing their present EU Integration Strategy, as well as in Ukraine developing an integration coordination model for the Ukrainian Government. CPM has also developed administrative services in Moldova, as well as national strategy development and implementation – a four-year "exercise", which has not resulted in anything very tangible in terms of implementation practices.

Funders for CPM projects are mainly international donor agencies: US Aid, DFID, UNDP, the EC and the Council of Europe, the Soros Foundation in Latvia, and the Latvian MFA. The Moldovan government's Donors Trust Fund has financed a project for "managing the comprehensive public sector reform strategy

[22] http://www.cpmconsulting.eu/cpm-portfolio

with a focus on the legal framework, decision-making systems, the civil service, financial management, and relations with citizens".

Moldova is the country with the largest number of projects that CPM has carried out, and further projects lie ahead as well: development of administrative services, and reform of the judicial sector. The project was already scheduled in 2012 when in view of limited funding only one beneficiary, Moldova, was singled out as a priority country for that year.

Table 4: Bilateral Development Aid projects coordinated by MFA in 2012

Funding (LVL)	Implementer	Project(s)
27,000	USAID Ministry of Justice	Latvia to take part in a joint four-year project in the Moldovan judicial sector
3,000	In cooperation with the Ministry of Environmental Protection and Regional Development	Joint programming project for the new European Union donor countries in the area of regional development of Moldova
15,269	Non-governmental organisations and social partners	
5,000		Civilian project in Afghanistan

Source: MFA[23]

Table 4, which illustrates MFA coordinated BDA of Latvia in 2012 indirectly reflects the focus not only on Moldova as one of the priority countries but also Latvian focus in terms of know-how transfer, in particular environmental issues.

Latvian Investment and Trade Interests

Closer examination of Latvia's BDA recipient countries shows that Latvian trade interests are most aligned with Ukraine and Belarus, which also illustrates the highest trade volume. These are the only two countries among ODA recipient countries with established branches of the Latvian Investment and Development Agency (LIAA).

While Belarus is regarded as a static country with little dynamics, during recent years Ukraine has been very interested in acquiring knowledge in investment attraction policy. In 2007-2008 Ukraine developed its investment attraction methodology taking into account Latvian's experience, incorporating a high level of detail on how to implement investment attraction policies at various levels of government. Cooperation was finalized with a cooperation agreement between the two countries' investment agencies.

Besides learning from Latvia's investment attraction policy, representatives from Ukraine also tried to facilitate closer ties with Latvian producers, and vice versa. However, cooperation activity was cancelled due to changes in Ukraine's political situation. Currently, Ukrainian interest in Latvian know-how or the entrepreneurs' network has significantly waned.

Another active development has taken place in cooperation with Azerbaijan, especially during recent years. Entrepreneurs from Latvia are interested in cooperating with Azerbaijan in the fields of clean tech and food, followed by IT, insurance, and infrastructure improvements.

Ad hoc Help

A specific characteristic of Latvia's development cooperation practices is ad hoc help or fast reaction to requests from aid recipient countries. According to both private and state sector representatives, Latvia's

[23] http://www.mfa.gov.lv/lv/Arpolitika/Attistibas-sadarbiba/palidziba/

cooperation partners are aware that "they can simply call and get answers in a very short period", so that there is no need to fill bureaucratic forms of inquiry. This fast and non-formal way of communication is more appropriate to Latvia's BDA recipient countries than transparent and more time-consuming procedures for communication via the EU.

Russian Language

Another important factor is that at the informal level state and private sector representatives from Latvia can communicate in Russian. Ability to provide information on legal acts and trade regulations in Russian is considered a necessity because legal acts of Latvia are currently officially translated only into EU languages even though Russian is the most widely used language in communicating with countries covered by the EU Neighbourhood policy.

The inter-governmental Commission shares its meeting notes with Latvia's ODA priority countries in the Russian language.

Most of Latvia's BDA is transferred to recipients that use Russian as a working language.

Case of Afghanistan: Infrastructure Development, Policy Development

Afghanistan is a rather new case for Latvia's transfer of know-how. According to NATO norms and regulations, a country which pursues military activities should combine those activities with civilian development plans. This guided Latvia to develop a policy that sets Latvia's civilian activities in Afghanistan, based on dialogue with local inhabitants and their needs. So far Latvia has invested in infrastructure in Afghanistan, building a police and court house, as well as installing water irrigation systems for several counties. Funding for Latvian activities in Afghanistan ended in 2008 due to the financial crisis, and only minor civilian activities have remained, such as hiring police in Afghanistan, and several consultants on borders.

4. Bottlenecks and Solutions

Bilateral economic relations between Latvia and ODA priority countries have been largely in accordance with EU trade relations with those countries, and there have not been any specific attempts to strengthen trade relations through ODA. Nevertheless, since major Latvian BDA falls within the theme of transition from planned to market economy then various capacity strengthening and transformation practices can be regarded as aid for trade, which strengthens infrastructure of governance, and thus also trade.

Characteristics of Bilateral Economic Relations

Although the effectiveness of bilateral economic relations is not evaluated, several issues have been disclosed by entrepreneurs and representatives of Latvian ministries or other institutions. The following issues have been determined as those that characterize Latvia's bilateral economic relations with ODA recipient countries.

The difference between what is "on paper" (official trade policies), and the actual situation on the ground

One of the most notable characteristics of trade relations with Latvia's BDA recipient countries is the notion that significant differences exist between what is stated in written documents or trade policies and what the situation is on the ground. This understanding fosters establishment of informal networks, and calls for identifying 'key persons' that actually set the rules for trade. Knowledge of the real framework of power for influencing trade relations means knowing what Latvian entrepreneurs base their strategies for trade on, and not any written documents or policies of BDA recipient countries. Therefore, actual analysis of trade policy documents and changes in those documents has been regarded by Latvia's business community representatives as a useless activity, since the rules for trade are not documented but instead are set up by specific individuals. Importantly, however, the individuals actually dictating trade policy are not easy to spot, so that doing so frequently requires local representatives in the BDA recipient country to introduce or inform about the network, which is significant when dealing with trade issues.

However, these practices of identifying key persons and pursuing non-official trade activities do not lead to upholding open, equitable, rule-based, predictable and non-discriminatory bilateral trading systems with ODA recipients.

Protectionist policies in recipient countries: import substitution programmes & monopoly situations

Several of Latvia's BDA recipient countries such as Belarus and Ukraine can be regarded as increasingly protectionist in terms of their trade policies. Rules and regulations in force protect local producers. According to Latvian entrepreneurs, at earlier stages the Belarusian and Ukrainian markets were more open than now. Moreover, the protectionist trend in trade policies is expected to continue. Latvia itself is considered a "good pupil of Europe", which implements its directives and regulations for open trade systems despite the fact that some of them can harm local producers. Besides, Georgia and Moldova are considered as more open and rule based markets, although issues of monopoly and lack of competition policy regulation appear. Below appears a more detailed overview of specific protectionist policies in Latvia's ODA priority countries.

Major challenges related to trade in **Belarus**:

- Import Substitution Programme

The import substitution programme adheres to Lukashenko's policy for Belarusian independence from the outside world. This programme ensures preferable conditions for local producers, and limits international trade activities.

- Instability with the local currency

Unexpected sudden inflation of the Belarusian local currency hinders trust from its international trade partners. Also goods which are needed for purchase cannot be purchased due to the necessity to change currency first. Time consumed on currency exchange slows down business operations.

- Fragmented and changing governance structure

Governance structure is fragmented, not transparent and difficult to understand. This complexity frequently requires hiring local representatives in Belarus as trade partners/representatives in an otherwise too complex trade environment. Another issue is fast changing laws and regulations, and inability to predict those changes or to react properly when changes are implemented. Various contracts and treaties regarding transportation and goods logistics have not been finalised, and this creates chaos.

- Tariffs and Barriers

In order to ensure that import substitution policy is implemented, high customs tariffs are in place. Transportation tariffs are growing constantly, and are set by the Belarus administration according to its needs. The Customs Union in Belarus, Russia and Kazakhstan since 2010 is hindering development of trade and goods transportation. The new Customs Union slows down trade from EU countries, and increases trade with Russia.

Major challenges related to trade in **Ukraine**:

- Import Substitution

Due to changes in its political agenda, Ukraine is moving towards import substitution strategies, and is becoming more closed to international trade. While no official import substitution regulations are in place, government institutions can pursue actions to decrease imports via slowing down procedures or other means. There are certain ways to protect an enterprise from such practices, e.g., by involving a European experts audit, which to a certain extent can lead to more balanced actions from Ukraine's government. Although Ukraine is part of the WTO, it still seeks ways to protect local producers by delaying full-fledged membership.

- Cyclical Development

Ukraine's development in terms of an open, rule based trade system is rather cyclical, and does not reflect linear progress. Reforms started in 2006 have now been cancelled, and Ukraine is back at the level of 2006, with all progress made since then reversed. The last three years have not shown much progress in Ukraine's international trade development.

- Customs barriers

Customs barriers are high. Ukraine is not in any economic union with either the EU, Russia, Kazakhstan or Belarus. It considers itself rather "independent" of economic unions, which slows down international trade.

- Corruption

Ukraine is most frequently associated with high levels of corruption among all Latvia's ODA priority countries. An unclear, changing corrupt structure stops or prevents Latvian companies from engaging more in trade activities in Ukrainian markets.

Major challenges related to trade in **Georgia**:

Georgia is considered rather loyal to EU trade practices. Georgian markets are open, and there are no considerable barriers to trade. The only damaging factor for trade is considered the monopoly situation, which Georgia's government is currently trying to solve. Current competition policy is against Georgia's integration in the EU.

As with other ODA priority countries, Georgia's economic environment is greatly influenced by changes in Georgian politics.

Major challenges related to trade in **Moldova**:

Moldova is rather dependent on development aid, which to a certain extent has also created various non-effective practices. Donors are setting the agenda of the country, and the political situation is not favourable for internal growth. The country depends more on imports, and it has a low capacity to export.

Major challenges related to trade in **Afghanistan:**

Afghanistan is far away from the notion of a free market. Its trade practices are based on cultural and historical traditions. Afghanistan's trade is mainly with neighbouring countries, chiefly Iran. The country suffers from major challenges in terms of infrastructure: there are 4 different rail widths throughout the land, and the majority of cities experience regular electricity shortages.

Latvian entrepreneurs interested in Afghanistan have refrained from more active trade due to security reasons.

Challenges to Latvia's own capacity

As regarded by state and private sector representatives, Latvia's major problem in trade relations with its ODA priority countries is frequently its own capacity. The size of Latvia's enterprises is small or medium, and for larger development projects the need arises to join forces, which is of utmost difficulty in Latvia. It is literally impossible to gather "more entrepreneurs under one roof". There is also lack of cooperation between state agencies and the private sector or public private partnership through which aid for trade capacity could be increased.

If there are no fast short-term gains out of aid for trade activities, Latvian enterprises invest unwillingly in the name of improved future trade infrastructure.

In order to reach more coherent aid for trade policy and action, it is necessary to solve certain barriers of aid efficiency. The following barriers should be considered:

- **Scatteredness of aid for trade**

Deliberate aid for trade policy in Latvia has been developed recently, and is a top-down project, developed in accordance with EU suggestions. Meanwhile, aid for trade activity is scattered around a large number of ministries and institutions, and lacks coherent coordination. There is minor coordination of actions and strategies between Latvia's Investment and Development Agency, which sets the course for Latvian trade interests, and the MFA, which formulates the political agenda for Latvian development aid. Furthermore, at a more operational level activities between Latvian state institutions and entrepreneurs are poorly coordinated, which leads to an information vacuum, and the inability to pursue all capacities Latvia might have in terms of aid for trade. Currently, Latvian entrepreneurs have not been involved in mapping the necessary course of development of Latvian and ODA priority countries' trade. There is no understanding at the government level of the needs of Latvia's entrepreneurs working in ODA priority countries, and there is even less understanding of what might be the needs of entrepreneurs in ODA recipient countries. This all leads to aid for trade which is rather formal, and provides more form (networking events, seminars) rather than content (real understanding of needs, and focused and coordinated action to adhere to needs).

- **Lack of incentives**

Latvia has great capacity in terms of aid for trade: state institutions and private sector representatives are able to share their transition experience from planned to market economy in Russian that is widely used in ODA priority countries; but it lacks incentives at various levels of government.

Other donors, too, value Latvian expertise and state institutions are invited to participate in various development aid projects. But Latvia itself lacks incentives to get actively involved in aid activities. Experts working in Latvian state institutions do not get involved in international aid activities because Latvia does not see any benefit from such activities: it is losing the workforce for its own current matters, and the growth of state institutional international capacity is not among the key performance indicators for Latvian governmental institutions. Even if Latvian expert participation would not require additional funding, Ministries turn down offers to participate and increase their network and capacity as aid providers.

- **Negative experiences prevent action**

Historical experience in cooperating with Latvia's ODA priority countries also determines current developments. Negative experience in finding cooperation partners, or trading goods and services in Ukraine, Belarus or Georgia prevents entrepreneurs from seriously considering investments in trade improvements. Latvian entrepreneurs are trying to play according to the rules of game, and instead of changing trade towards a more open and predictable trade, they focus on how to learn the existing rules, and how to act according to current trade systems.

Conclusions and Suggestions for Policy Measures

Currently, Latvia does not fully use its capacity in aid for trade with its ODA priority countries due to the following factors stated below.

At the governmental level there is a **lack of incentives to foster state employee engagement in development aid activities, so that many opportunities to participate and learn from other donors' aid activities are neglected.** Allowing more active involvement of state institutions' employees in aid for trade activities in Latvia's priority countries would lead to Latvia's capacity growth as a donor, an increased network, and greater knowledge regarding such issues as the needs of aid recipient countries, as well as risks to be taken into account when pursuing development cooperation activities there. **Through more active participation as a partner of other EU countries' financed aid activities Latvia would grow its social capital as a donor country. Without investing financially, Latvia would gain the necessary skills and knowledge to be used for bilateral aid activities later**.

Aid is rather scattered in terms of focus, spread across various ministries and state institutions. Institutions related to trade issues (such as LIAA, various associations) do not cooperate actively with the major aid coordinator – the MFA. Its coordination capacity has diminished due to budget cuts after the financial crisis in 2007. **More regular and stronger ties should be built among aid for trade stakeholders, such as LIAA and the MFA, embassies, as well as other ministries involved in Latvia's BDA management.** Furthermore, there is little involvement of private sector representatives, so that **knowledge that entrepreneurs have about different markets is not taken into account when forming policies and BDA activities at the governmental level**. This leads to formal and stagnant activities (such as ineffective networking events), which formally should foster trade and development but do not tackle the real problems that entrepreneurs from Latvia and its ODA priority countries face.

Taking into account the notable demand for translation of trade legislation and regulation into Russian (since this is the language used as the working language between Latvia and its ODA priority countries), **Latvia should consider what trade related information should be provided in Russian, and translations could be done in a more coordinated manner instead of ad hoc**. This would save time and resources. Currently, different institutions deal with translations on their own, which slows down the process and leads to inefficient use of financial resources.

Learning effects from Latvia's BDA do not take place: the effectiveness of aid for trade is not being measured. Several activities and projects with Latvia as donor provider could be regarded as best-practice examples. However, there are currently no clear key performance indicators against which to evaluate Latvia's BDA actions. There is also a lack of follow-up activities. This leads to the situation where no learning effect takes place. **Even if BDA project budgets are tiny, certain lessons learned could be compiled and used as a knowledge base for future action in aid for trade.**

Currently, **none of the entrepreneurs interviewed actually showed any incentive to foster a more open and rules-based trade system in Latvia's ODA priority countries.** Instead, there was a willingness to invest in understanding the "real rules of the game". It would be important to include in new aid for trade policies the notion of short term versus long-term gains, and **explain what could be the long-term gains of a more open and rules based system in Latvia's ODA priority countries**.

Finally, aid for trade activities have been introduced in a top-down way from the EU to Latvia, which to a certain extent coincides with the notion of Latvia as a "democracy export country". At the same time **at a policy level there is no clear vision of what Latvia wants to achieve in terms of trade with its ODA priority countries**. While in the aid agenda Latvian expertise has always been linked to environmental protection, civil society activities and recently also food standards improvement, in Ukraine, Moldova and Georgia Latvia has bilateral cooperation agreements for the IT sector. If IT is the new priority domain Latvia is considering then other BDA activities should be aligned with this sector, otherwise **aid is scattered**

around an "all-inclusive" concept of transition to democracy. If Latvia wants to add value as a bilateral donor with a tiny budget, it has to determine in which sectors it has the best capacity to provide services to aid recipient countries.

Methodology

The research objective was to analyze development of bilateral trade with priority ODA recipient countries under applied trade regimes and trade agreements as a powerful engine for economic growth, poverty reduction and sustainable development.

The research tasks were:

- To present the existing policies of partner countries regarding Aid for Trade.
- To analyze bilateral trade relations with priority recipient countries for the period of partner countries' EU membership.
- To analyze applied trade regimes and the effect of changes of trade regimes on trade turnover.
- To formulate problems based on trade regimes in order to find out whether there are common problems for all project partner countries.
- To propose measures for overcoming difficulties in bilateral trade and economic relations.
- To define opportunities for coordinated actions of project partner donor countries referring to Aid for Trade and reducing the weight of trade regulations and procedures.
- To develop networking between project partners through exchange of opinions and good practice.
- To raise public awareness on ODA, partnership for development and Aid for Trade issues.
- To try to draw a road map of future action by NMS in submitting Aid for Trade to recipient countries.

The time line of analysis included in this research is since 2004 until 2012. The analysis in this research is based on policy documents, previous research, as well as personal communication with government and private sector representatives. The following individuals were interviewed:

Ministry of Foreign Affairs

Anda Grīnberga, Acting Head of Development Cooperation Division of Economic Relations and Development Cooperation Policy Department.

Marta Veiķeniece, Second Secretary of International Trade and Investment Division of Economic Relations and Development Cooperation Policy Department.

Ministry of Economics

Lita Stauvere, Deputy Director of the Department of Foreign Economic Relations.

Jānis Zakovics, Head of Foreign Trade Policy Division, Department of Foreign Economic Relations.

Ministry of Agriculture

Dace Freimane, Head of Division of Markets Common Organisation.

Evita Kozlovska, Deputy Head of Division of Markets Common Organisation.

Ministry of Defence

Armīns Mačiņš, Head of International Operations Policy Section.

Māris Balčūns, Senior Desk Officer of International Operations Policy Section.

Latvian Investment and Development agency (LIAA)

Aija Jaunzeme, Director of Department of Promotion of Foreign Trade.

Food and Veterinary Service

Gunta Neretniece, Head of Section of External Relations and International Projects.

Focus group discussion/interviews with private sector:

Corporate & Public Management Consulting Group (CPM), Ivo Rollis.

Latvian Employers' Confederation (LDDK), Eduards Filipovs.

JSC Grindeks, Linda Litiņa.

Latvian Chamber of Commerce and Industry (LCCI), Mārtiņš Perts.

Ltd Aloja Starkelsen, Guna Velkere.

Ltd. Business & Investment, Ingus Freibergs.

Electronic interviews with:

Latvian Traders Association, Henriks Danusevičs.

Ltd Plazma Keramika Technologies, Eriks Palčevskis.

JSC Neomat, Leonīds Stafeckis.

Latvian Investment and Development Agency in Ukraine, Āris Kotāns.

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"Plan for Development Co-operation for 2007" (2006) Database of policy planning documents, last viewed on 30 December 2012 http://www.mfa.gov.lv/en/policy/DevelopmentCo-peration/BasicDocuments/PolicyPlan-2007/

"Plan for Development Co-operation for 2008" (2007) Database of policy planning documents, last viewed on 30 December 2012 http://www.mfa.gov.lv/en/policy/DevelopmentCo-peration/BasicDocuments/PolicyPlan-2008/

"Program for Development Co-operation, 2006-2010" (2006) *Database of policy planning documents*, last viewed on 30 December 2012 http://polsis.mk.gov.lv/view.do?id=1898

"Latvian Development Cooperation Policy Strategy 2011-2015 " (2011), *Database of policy planning documents*, last viewed on 30 December 2012 http://www.mfa.gov.lv/en/policy/DevelopmentCo-operation/BasicDocuments/

Electronic Resources

Bilateral Agreements with Moldova

http://www.am.gov.lv/lv/Arpolitika/bilateral/?mode=out&state=MDA&title=&branch=0&day1=dd%2Fmm%2Fyyyy&day2=dd%2Fmm%2Fyyyy&status=0&day3=dd%2Fmm%2Fyyyy&signer=, *last viewed on 30 December 2012*

Bilateral Agreements with Georgia

http://www.am.gov.lv/lv/Arpolitika/bilateral/?mode=out&state=GEO&title=&branch=0&day1=dd%2Fmm%2Fyyyy&day2=dd%2Fmm%2Fyyyy&status=0&day3=dd%2Fmm%2Fyyyy&signer=, *last viewed on 30 December 2012*

Bilateral Agreements with Belarus

http://www.am.gov.lv/lv/Arpolitika/bilateral/?mode=out&state=BLR&title=&branch=0&day1=dd%2Fmm%2Fyyyy&day2=dd%2Fmm%2Fyyyy&status=0&day3=dd%2Fmm%2Fyyyy&signer=, *last viewed on 30 December 2012*

Bilateral Agreements with Ukraine

http://www.am.gov.lv/lv/Arpolitika/bilateral/?mode=out&state=UKR&title=&branch=0&day1=dd%2Fmm%2Fyyyy&day2=dd%2Fmm%2Fyyyy&status=0&day3=dd%2Fmm%2Fyyyy&signer=, *last viewed on 30 December 2012*

CPM Homepage

http://www.cpmconsulting.eu/cpm-portfolio, *last viewed on 30 December 2012*

Central Bureau of Statistics

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Ministry of Foreign Affairs

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POLAND

Introduction

In September 2000 the world leaders gathered at United Nations headquarters in New York to adopt the Millennium Declaration and set out a series of time-bound goals that have become known as the Millennium Development Goals (MDGs). The last, eighth Millennium Development Goal (MDG8) focuses on developing a global partnership for development. In particular, it contains several more detailed targets, namely:

- Developing further an open, rule-based, predictable, non-discriminatory trading and financial system;
- Addressing the special needs of least developed countries, landlocked countries and small island developing states;
- Dealing comprehensively with developing countries' debt;
- In cooperation with pharmaceutical companies, providing access to affordable, essential drugs in developing countries;
- In cooperation with the private sector, making available benefits of new technologies, especially ICTs.[1]

The target number one ("Developing further an open, rule-based, predictable, non-discriminatory trading and financial system") is particularly relevant for the worldwide efforts to meet MDG8. In a globalised economy trade policy is assumed to serve as a fundamental development tool and an instrument to lift millions of people out of poverty. Recognising this fact, a number of advanced donors have started helping developing and transition countries (DTC) benefit from globalization and open trade and working on synergies between their trade and development policies. That's why the so-called "aid for trade" has become an important part of Official Development Assistance (ODA) granted by donors to developing countries. On entering the European Union, also the new Member States (such as Poland) recognized the importance of trade as a tool for achieving development results and committed themselves to granting aid for trade to some recipient countries.

In this context the Center for Economic Development (Bulgaria) as a project leader, the Center for Policy Studies at the Central European University (Hungary), the Center for Public Policy PROVIDUS (Latvia), the Institute of Public Affairs (Poland), the Institute for Public Policy (Romania), SLOGA Slovenial NGDO Platform (Slovenia), the Slovak Foreign Policy Association (Slovakia), PRAXIS Center for Policy Studies (Estonia) and PASOS (Czech Republic), have decided to jointly implement the project *"Update of the current status of implementation of international/bilateral trade regimes with ODA recipients and the current role of civil society and private sectors as development actors in the new EU Member states".* The project is supported

1 http://www.un.org/millenniumgoals/global.shtml.

under the European Commission thematic programme entitled Non-state actors and Local Authorities in Development. The present paper was commissioned by the Institute of Public Affairs and written within this project.

The objective of this paper is to analyze the development of bilateral economic relations between Poland and its key development co-operation partners, and in particular to:

- Analyze the bilateral trade relations with Poland's priority recipient countries for the period of the country's EU membership;
- Analyze the applied trade regimes, and the effect of changes of trade regimes on trade turnover;
- Formulate problems based on trade regimes in order to find out whether there are common problems for all project partner countries;
- Propose measures for overcoming difficulties in bilateral trade and economic relations;
- Present Poland's policy regarding aid for trade;
- Define opportunities for coordinated actions of project partner donor countries referring to Aid for Trade and reducing the weight of trade regulations and procedures.

This research was focused on trade and investment relations between Poland and six Eastern Partnership countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine) officially declared by the Government of Poland as priority development partners for the years 2012-2015. These countries are not only important from the development assistance point of view, but they also belong to Poland's main trade and investment partners among all developing countries that figure on the OECD DAC List of ODA Recipients[2]. In addition, most of these countries have been assisted by Poland for a couple of years already (Georgia and Moldova since 2003, Belarus and Ukraine since 2005).

The analysis was done on the basis of:

- National documents on Poland's development policy;
- Documents referring to trade relations with selected recipient countries;
- Statistical information on trade turnovers with the aforementioned countries,
- Results from the focus groups discussions with representatives of government administration (responsible ministries and agencies).

The analysis was done for the period after Poland's accession to the European Union (2004).

1. Poland's development co-operation

1.1. Overview of Poland's development co-operation

Poland, like other new EU Member States, is a relatively new and small provider of development assistance. Albeit it was involved in delivering aid already before the change of political and economic system in 1989 (as part of the former Soviet bloc's engagement in the Third World countries),[3] in practice it embarked on first aid projects only in the second half of 1990s. Since then, Poland has progressively increased the scope and volume of its Official Development Assistance (ODA) and built up institutions, systems and procedures for its effective delivery. In 2011 Poland's total net ODA (as reported to the OECD Development Assistance Committee) reached USD 417,16 million, representing 0.08 % of the country's GNI.[4]

[2] See the DAC List of ODA Recipients: http://www.oecd.org/dac/stats/daclistofodarecipients.htm.

[3] Under the communist regime Poland provided assistance mainly to the countries that had embarked on the „socialist path of development" and pursued a policy aligned with Soviet global interests. At that time its development policy consisted mainly of supply of investment equipment and technical know-how, commercial credits and educational opportunities. See: P. Bagiński, Poland (in): Michael Dauderstädt (ed.): EU Eastern enlargement and development cooperation, Friedrich-Ebert-Stfitung, International Policy Unit, Bonn 2002.

[4] Statistics on resource flows to developing countries,

http://www.oecd.org/development/aidstatistics/statisticsonresourceflowstodevelopingcountries.htm.

Poland's bilateral ODA is focused on middle income countries and sectors (governance, democracy and transition) where the country has a comparative advantage but which do not necessarily address poverty or the Millennium Development Goals directly.[5] Its development co-operation has been provided mostly in the form of technical assistance projects, scholarships, concessional loans and humanitarian aid. Bilateral aid activities have been undertaken by Civil Society Organisations (CSOs) and public agencies, but also by local governments and research institutes, as well as – although to a limited extend - private sector entities. The main bilateral aid modality are (rather small scale) projects identified through annual calls for proposals and „small grants" administered by embassies.[6] The multilateral ODA is channeled mostly through the European Union (EU general budget and European Development Fund - EDF), as well as the United Nations funds, programs and agencies and those of the World Bank Group.

1.2. Strategic and legal framework for Poland's development co-operation

a. Strategy for Poland's Development Co-operation of 2003

In October 2003 the Government of Poland adopted the first strategic document concerning the country's engagement in global development ("Strategy for Poland's development co-operation"). The strategy has set out aims, principles and priorities of development policy, main aid instruments as well as roles and responsibilities of different institutions responsible for aid delivery. The document was assessed by the OECD (DAC) as broadly in line with prevailing international tendencies and commitments at the time of its approval (2003).[7] Unfortunately, the Strategy has lost its relevance soon after its adoption as a result of the Poland's accession to the EU in 2004, modification of the list of ODA recipients by the OECD in 2005 (and inclusion on this list of non-EU countries in transition like Belarus or Ukraine) as well as priorities of the new government that went into power in Warsaw in 2005. Nevertheless, the 2003 Polish aid strategy has been replaced by the new strategic framework only in 2012, when the Multiannual Development Co-operation Programme 2012-2015 was adopted.

b. The Act on Development Co-operation of 2011

The first Act on Development Co-operation was adopted by the lower chamber of the Polish Parliament (Sejm) on 16 September 2011 and came into force on 1 January 2012. The Act describes among others the forms of development co-operation, rules governing its implementation and tasks of the Minister of Foreign Affairs in the area of global development. It also contains the provisions concerning the newly created Development Co-operation Policy Council.

According to the Act, Poland's development co-operation comprises actions undertaken by government agencies with a view to providing developing countries with development assistance (consisting in particular in supporting democracy and civil society as well as long term social and economic development) and humanitarian aid. Polish development co-operation covers also the implementation of educational activities aimed at raising awareness of global issues.[8]

The Act on Development Co-operation introduces multiannual planning of aid policy. According to the Act, Poland's development co-operation is to be conducted on the basis of a Multiannual Development Co-operation Programmes, adopted by the Council of Ministers and covering at least 4 year periods. On the basis of the Programmes, the Minister of Foreign Affairs is obliged to draft yearly Development Co-operation Plans.

The Act on Development Co-operation strengthens coordinating functions of the Ministry of Foreign Affairs in the Polish aid system and sets legal basis for ensuring Policy Coherence for Development (PCD). The Act

[5] *DAC Special Review of Poland*, OECD, Paris 2010.

[6] Ibidem.

[7] Ibidem.

[8] *Development Co-operation Act of 16th September 2011.* http://www.polishaid.gov.pl/files/Aktualnosci2011/Polish_Development%20Cooperation%20Act_2011.pdf

stipulates that when disbursing aid funds at its disposal, any government agency is obliged to consult the guidelines for the expenditure of these funds with the Ministry of Foreign Affairs. More importantly, the Ministry of Foreign Affairs is authorized to provide opinions on all government programmes and strategies with regard to their coherence with the guiding lines of the government's aid policy.

Under the Act, the Development Co-operation Policy Council - an consultative and advisory body - was set up. The Council is made up of the representatives of the key line ministries involved in providing development co-operation (including the Ministry of Economy and the Ministry of Finance), as well as the representatives of the parliament, non-governmental organizations, employer organizations and academia.

The activities in the field of development co-operation, "owing to the specific political circumstances present in the country where the activity is implemented", may be commissioned by the MFA to the Polish Foundation for International Development Co-operation „Know-How"[9] (operational since 2012). In practice, the Foundation focuses its activities on promoting democracy and sharing Polish transition experience with the country's Eastern neighbours, North Africa's new democracies and a couple of other countries moving out from dictatorship.

c. Multiannual Development Co-operation Programme 2012-2015

The first Multiannual Development Co-operation Programme was adopted by the Council of Ministers on 20 March 2012 and will cover the period until 2015. The Programme lays down goals and principles as well as geographical and thematic priorities of Poland's development co-operation.

According to the Multiannual Development Co-operation Programme 2012-2015, the main goal of Poland's development cooperation is to create conditions for sustainable development of developing countries. This goal is pursued in particular by promoting and consolidating democracy and respect for human rights, helping create modern and efficient state institutions, promoting sustainable social and economic development, undertaking actions which contribute to reducing poverty and improving health condition of population, as well as raising the level of education and professional qualifications of population.[10]

The Multiannual Programme mentions two thematic priorities for Polish bilateral aid for 2012-2015: "Democracy and human rights" and "Political and economic transformation". Bilateral projects implemented by the MFA and its external partners with a view to supporting political and economic transformation (the second thematic priority) are above all intended to improve the functioning of state institutions, promote good governance, protect democratic standards and human rights and enhance civil society.[11]

According to the Polish trade and development experts interviewed during the focus group discussion at the Institute of Public Affairs on 26 November 2012, the Multiannual Development Co-operation Programme focuses on political and social than on economic issues. There are opinions that Polish Aid programme should contain more economic elements.

1.3. The Volume of Poland's Official Development Assistance

Since joining the EU in 2004, Poland has been progressively increasing its Official Development Assistance. In 2005, as a new member of the European Union, Poland has committed itself to strive to reach an ODA/GNI ratio of 0.17% by 2010 and of 0.33% by 2015. Unfortunately, fulfilling the first commitment was not possible due to budgetary constraints. Reaching the level of ODA equal to 0,33% of GNI by 2015 looks also very problematic as it would involve dramatic increase of Polish bilateral aid within the next two-three years.

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9 Ibidem.

10 Multiannual Development Co-operation Programme 2012-2015. Solidarity, democracy, development.: http://www.polishaid.gov.pl/files/dokumenty_publikacje/PW_EN-po_reas.pdf

11 Ibidem.

In 2011, Poland's total net ODA (as reported to the OECD Development Assistance Committee) reached USD 417.2 million, representing 0,08 % of the country's GNI. In this respect, Poland lags behind not only more advanced donors (members of the DAC), but also a number of the EU Member States that joined the EU in or after 2004 (except for Latvia). As mentioned above, Polish aid is delivered primarily through international aid institutions. In 2011, multilateral ODA accounted for 78% (USD 324 million), while bilateral assistance represented 22% (USD 96 million) of total ODA flows.[12]

Since Poland's accession to the EU in 2004 until 2007, Poland's bilateral ODA rose quite rapidly (from USD 25 million in 2004 to USD 156 million in 2007), then it stagnated at the level of around USD 90 million per year. As to multilateral aid, it also rose quickly from 2004 (when it amounted to USD 93 million), reaching the pick in 2008 (USD 288 million), then it stabilized during 2009-2010, to increase again in 2011 up to USD 372 million. This last increase was partly due to Poland's first ever contribution to the European Development Fund (EDF). (see detailed figures in table 1).

Table 1. Bilateral and multilateral ODA from Poland 2004 – 2011 (in USD million)

Net ODA in USD million in a given year	2004	2005	2006	2007	2008	2009	2010	2011
Bilateral ODA	25	48	119	156	84	92	96	90
Multilateral ODA	93	157	178	207	288	283	282	327
Total ODA	**118**	**205**	**297**	**363**	**372**	**374**	**378**	**417**

Source: Polish Aid and OECD.

Polish multilateral assistance is channeled through a limited number of international organizations, funds and programs. The European Union occupies the leading position among them being the country's main multilateral aid channel. In 2011 Poland's contribution to the EU that qualifies as ODA totaled USD 312 billion which represents 97% of the whole multilateral ODA. Out of it, around USD 268 million was channeled through the general EU budget, while USD 44 million was earmarked for the European Development Fund (EDF). Among other multilateral institutions one should mention Poland's contributions to the World Health Organisation (WHO) and International Labour Organisation (ILO) as well as replenishments of the International Development Association (IDA) of the World Bank.[13]

1.4. Main institutions of the Polish Aid system

The Ministry of Foreign Affairs is the leading institution in the Polish Aid system. According to the Act on Development Co-operation, the Ministry coordinates aid activities by proxy of the National Coordinator for International Development Co-operation (at the rank of the Secretary or Under-Secretary of State). Within the Ministry of Foreign Affairs, the Development Co-operation Department (DCD) is the main focal point responsible for development co-operation strategy and policy leadership. It counts about 50 officials. It ensures the proper implementation of the tasks of the Ministry in the area of development co-operation and supervises the whole aid policy cycle from development policy formulation, through financing and implementation of projects and programmes until monitoring, evaluation and reporting.

Despite the formal leading position of the Ministry of Foreign Affairs in the Polish Aid system, it manages only about 10 % of Poland's ODA. It is due to the fact, that – as mentioned above - the overwhelming part of Polish ODA volume constitutes the country's contribution to the EU development budget managed and overseen by the Ministry of Finance. In fact, the delivery of Polish bilateral or multilateral aid involves a couple of state or para-state institutions, in particular:

[12] See OECD aid statistics: http://www.oecd.org/dac/stats/international-development-statistics.htm.

[13] Source: Polish Aid and OECD aid statistics.

- the Ministry of Finance that provides financial assistance (concessional loans, debt relief, payments to the international financial institutions);
- the Ministry of Interior that manages aid to refugees;
- the Bureau for Academic Recognition and International Exchange (controlled by the Ministry of Science and Higher Education) that is responsible for scholarships;
- the Ministry of Defence with certain tasks linked to the reconstruction of Afghanistan;
- the Polish Foundation for International Development Co-operation "Know-How" ("Solidarity Fund") that implements selected projects focused on democratization and sharing transformation experience.

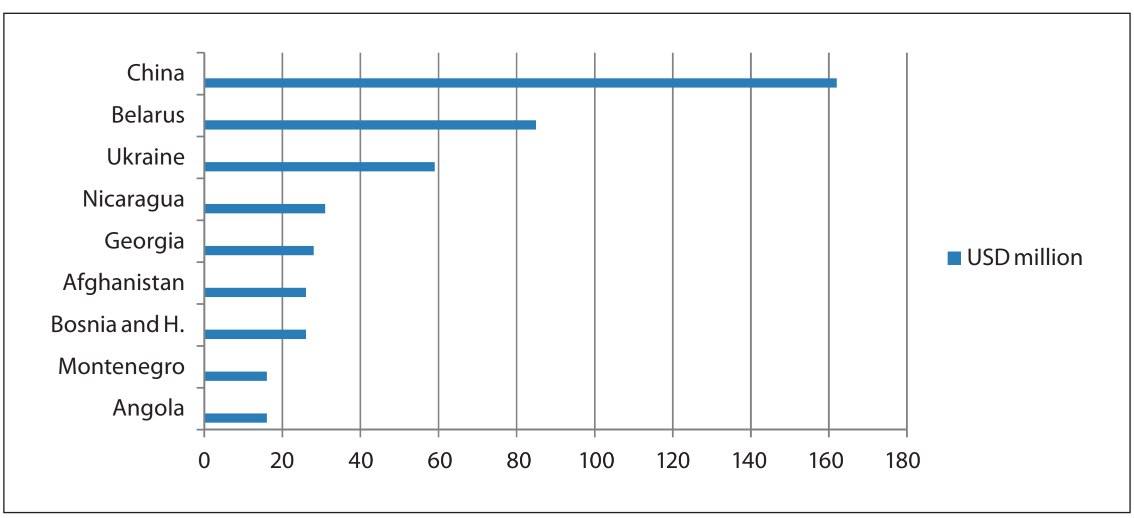
A couple of other ministries, government agencies and NGOs are also involved in Polish aid delivery.[14]

1.5. Priority countries of Poland's Official Development Assistance

Poland has selected priority countries for its Official Development Assistance using the mix of criteria, including Polish economic and cultural links, historical ties, geopolitical considerations, interests of constituencies within Poland, Poland's comparative advantage, as well as needs, poverty, MDGs and governance indicators.[15]

The list of the top recipients of Poland's bilateral assistance has fluctuated over the recent years and not always reflected the list of priority development co-operation partners as established by the MFA or the Polish government. This results among others from the weak co-ordination between key ministries involved in aid delivery so far and still limited amount of financial resources at the disposal of the main aid institution (the MFA) for the officially declared partner countries. In this context any more substantial aid package offered by other state agencies (e.g. preferential credits agreed by the Ministry of Finance for China or debt relief for Nicaragua) have significantly changed the list of top Poland's aid recipients. (see figure 1).

Figure 1. Top ten recipients of Polish bilateral ODA 2007 – 2011 (cumulative volume in USD million)



Source: Polish Aid, Zagranica Group and OECD.

[14] *Poland – Policy Framework* (Poland's donor profile prepared by the European Commission). http://ec.europa.eu/europeaid/what/development-policies/financing_for_development/documents/poland-donor-profile.pdf.

[15] *DAC Special Review of Poland*, OECD, Paris 2010.

Recently, the Ministry of Foreign Affairs has attempted to streamline Polish aid on key priorities and make the list of aid recipients less liable to fluctuations. The adoption of the Multiannual Development Co-operation Programme 2012-2015 by the whole government should be seen as an important step in this direction. According to the Programme, in the years to come, Polish bilateral aid is to be delivered mostly to two groups of countries:

- The first group consists of six Eastern Partnership countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine) in which Poland wants to foster democratisation, human rights and political transformation to bring these countries closer to the European Union. These countries should receive 60 % of MFA's bilateral aid funds.

- The second group comprises eight countries from Eastern Africa (Burundi, Ethiopia, Kenya, Rwanda, Somalia, South Sudan, Tanzania, Uganda), two from North Africa (Libya and Tunisia), as well as Afghanistan, Kyrgyzstan, Tajikistan and the West Bank and Gaza Strip. Poland intends to support these countries in particular in the area of education, environment, development of small and medium size enterprises (SMEs) and professionalization of public administration.[16]

1.6. Bilateral trade as a part of Poland's development co-operation policy

As a member of the international community, in particular the WTO, OECD and the UN, Poland has endorsed a number of documents that directly or indirectly relate to the MDG8 and to trade and development nexus. It subscribed among others to the UN Millennium Declaration, the Monterrey Consensus on Financing for Development, the European Consensus for Development, the Agenda for Change and EU statements concerning aid for trade. Poland has also participated in initiatives that aimed at promoting Policy Coherence for Development (PCD), including coherence between economic (or trade) policy with priority aid recipient countries and development co-operation policy.

Responding to the OECD-WTO Donor Questionnaire on Aid for Trade in 2009, Poland declared that it paid attention to the question of integrating trade into development strategies and to assisting developing countries in carrying out domestic reforms. The Polish government stated that "*Poland fully shared the view that the EU policy should increasingly reflect the growing independence between internal and external action, which is driven by globalization and the emergence of global threats and challenges. Developed partners can intensify their trade flows through bilateral or regional initiatives – on a much deeper scale than developing countries can do, not even mentioning LDCs. Multilateral approach is an element of crucial importance to countries that want to dynamise their economies by intensifying trade relations. That's why South-South trade is also important as a growth factor, especially in regions, where developing countries have not developed satisfactory trade-net*". Poland also declared that it was going "*to streamline its efforts to increase the overall level of technical assistance to developing countries – with special attention to the countries in (WTO) accession – like Azerbaijan and Afghanistan*".[17]

Nevertheless, in the documents constituting the strategic framework of the Polish Aid programme, there is no direct reference to the MDG8, to developing an open, rule-based, predictable, non-discriminatory trading and financial system, nor to trade as important part of national development aid policy. Trade policy and aid for trade do not appear as priority sectors of Polish aid for the years 2012-2015. These topics are not mentioned in the Multiannual Programme neither as horizontal (cross-cutting) themes nor as priority sectors for priority countries mentioned in the document. It should be admitted that since "political and economic transformation" has been selected as one of two thematic priorities of the Polish aid programme for 2012-2015, such activities as reforming public administration or ensuring more consistency with EU standards of laws may be financed from ODA funds. This may allow the Polish authorities to finance projects or initiatives that indirectly help developing countries integrate into global markets. Nevertheless, the lack

[16] Multiannual Development Co-operation Programme 2012-2015. Solidarity, democracy, development. http://www.polishaid.gov.pl/files/dokumenty_publikacje/PW_EN-po_reas.pdf

[17] OECD/WTO Donor Questionnaire on Aid for Trade (Poland): http://www.oecd.org/dac/aidfortrade/43150151.pdf.

of direct reference to economic development, trade policy and aid for trade in the strategic documents of national aid policy limits the scope of the MFA to allocate any substantial financial resources to these areas in the annual aid plans and budgets.

Despite the absence of trade and aid for trade in the national aid programme, Poland has received quite high scores as it comes to the coherence between trade and development in the last Commitment to Development Index (CDI), prepared by the experts of the Centre for Global Development (CGD). In this Index Poland was ranked at 11th position among 27 surveyed countries, most of them being the advanced DAC donors. According to the CGD experts, Poland has some strengths including low tariffs on textiles (6.4% of the value of imports - rank: 3), low tariffs on apparel (6.4% of the value of imports - rank: 3) as well as high level of manufactures imports from poorer countries (10.1% of GDP per capita; rank: 4).[18] As this position is laudable, it results not from deliberate Poland's development policy but rather the common EU trade regime, which is much more friendly to the exports from the developing and transition markets (see chapter 2).

2. Current state of bilateral trade and applied trade regimes

2.1. General framework – European Union's trade policy

The accession to the European Union on 1 May 2004 was instrumental in shaping the framework for trade relations between Poland and developing and transition countries (DTC), including priority development co-operation partners. On joining the EU, the *acquis communautaire* regarding trade policy was extended to Poland and repealed a number of bilateral agreements and other trade policy instruments in force before the accession. Therefore, before 1 May 2004, Poland had to comply with all EU trade agreements with Union's external partners and to transfer important part of competences in conducting economic policy towards non-EU countries to the European Commission.

Trade policy is an exclusive power of the EU, so only the Union, and not individual Member States, can legislate on trade matters and conclude international trade agreements. The scope of EU's exclusive powers covers not only trade in goods, but also services, commercial aspects of intellectual property and Foreign Direct Investment. The EU has also exclusive powers in some other areas which may be relevant for trade policy, such as transport or capital movements.[19] Therefore, since the EU accession, the legal and political framework for Poland's economic relations with its priority ODA countries contains both agreements concluded by the EU with these countries and bilateral agreements signed by the government of Poland covering areas or subjects that are not regulated by the EU (such as mutual promotion and protection of investments, avoidance of double taxation or prevention of fiscal evasion).

The EU considers trade policy as an important tool for achieving development objectives. It committed itself to actively help developing countries find way out of poverty including through trade measures. It has already opened its markets to the imports from the world's poorest countries, and works actively to help developing countries build the capacity to take advantage of trade.[20] While doing this, it significantly contributes to the implementation of the MDG8 and in particular to developing further an open, rule-based, predictable, non-discriminatory trading and financial system.

[18] David Roodman, Julia Clark, Poland Country Report, Centre for Global Development 2012. http://www.cgdev.org/doc/CDI%202012/Country_12_Poland_EN.pdf.

[19] See the European Commission trade policy website: http://ec.europa.eu/trade/index_en.htm.

[20] See the European Commision website: http://ec.europa.eu/trade/wider-agenda/development/.

2.2. Framework for the EU economic co-operation with Poland's main ODA partners

The overall relations between the European Union and Eastern Partnership countries (except for Belarus) have been based on the non-preferential Partnership and Co-operation Agreements signed already in the 1990s. In general these agreements did not included tariff preferences, but prohibited quantitative restrictions in bilateral trade and envisaged progressive regulatory approximation of the respective countries' legislation and procedures to the EU and international trade related laws and standards.[21] In relation to a certain number of countries these agreements may be replaced in the near future by new agreements creating Deep and Comprehensive Free Trade Area (DCFTA) between the EU and these countries.

Box 1. Deep and Comprehensive Free Trade Area

A Deep and Comprehensive Free Trade Area is about closer economic integration, including:

- **Complete elimination of customs duties** - so that products can enter duty free and result in lower prices of goods to the benefit of consumers;
- **Improvement of customs procedures** - bringing the partners' legislation closer to the EU one to unify procedures for imports;
- **Increased protection of intellectual property** - to improve in particular enforcement of legislation and bring the level of IP protection on a par with that in the EU;
- **Application of EU sanitary and phytosanitary rules** – to increase the level of food safety protection within the countries and so allow exports of products of animal origin to the EU;
- **Upgrade rules on public procurement and competition** - thereby creating a transparent and predictable regime for economic operators both in private and public commercial transactions;
- **Removal of technical obstacles to trade** - to facilitate trade in industrial products but also, by upgrading infrastructure and conformity assessment procedures, to gradually increase competitiveness of their industries.

Source: European Commission

In general terms, export to the EU (including Poland) from six Eastern Partnership countries is already significantly liberalized. Most of the EU's Eastern neighbours benefit from preferential trade regimes ("Generalised Scheme of Preferences" and "Generalised Scheme of Preferences Plus") that offers unlimited and duty free access to the EU market for all products originating in them, except for certain agricultural products (for which tariff rate quotas are defined).

[21] See more about Partnership and Co-operation Agreements: http://europa.eu/legislation_summaries/external_relations/relations_with_third_countries/eastern_europe_and_central_asia/r17002_en.htm

Box 2. Generalised Scheme of Preferences (GSP)

The EU's Generalised Scheme of Preferences (GSP), created following UNCTAD recommendations, helps developing countries by making easier for them to export their products to the European Union. This is done in the form of reduced tariffs for their goods when entering the EU market. It is made of three components:

- - Duty reductions for ca. 66% of all tariff lines for beneficiaries in general. Currently 111 countries and territories enjoy these reductions, and in 2011 exported products worth EUR 72.5 billion thanks to these preferences. This is 83% of all imports benefiting from GSP preferences.
- - Zero duties for essentially the same 66% tariff lines for countries which implement core human rights, labour rights and other sustainable development conventions ("GSP+"). There are 16 beneficiaries which exported in 2011 EUR 4 billion thanks to these preferences. This is 5% of all GSP preferences.
- - Full duty free, quota free access for all products except arms (Everything But Arms, or "EBA") for Least Developed Countries (LDCs). There are 49 beneficiaries which exported in 2011 products under GSP worth EUR 10.5 billion - 12% of all GSP preferences.

Source: European Commission

The table below summarizes the key factors determining the framework of economic co-operation between the EU and six Eastern Partnership countries.

Table 2. EU – EaP co-operation framework

Country	Membership in the World Trade Organisation (WTO)	Partnership and Co-operation Agreement	General System of Preferences	General System of Preferences Plus
Armenia	X	X		X
Azerbaijan		X		X
Belarus				
Georgia	X	X		X
Moldova	X	X		X
Ukraine	X	X	X	

Source: European Commission

2.3. Poland's trade turnovers with main development co-operation partners after the EU accession – general overview

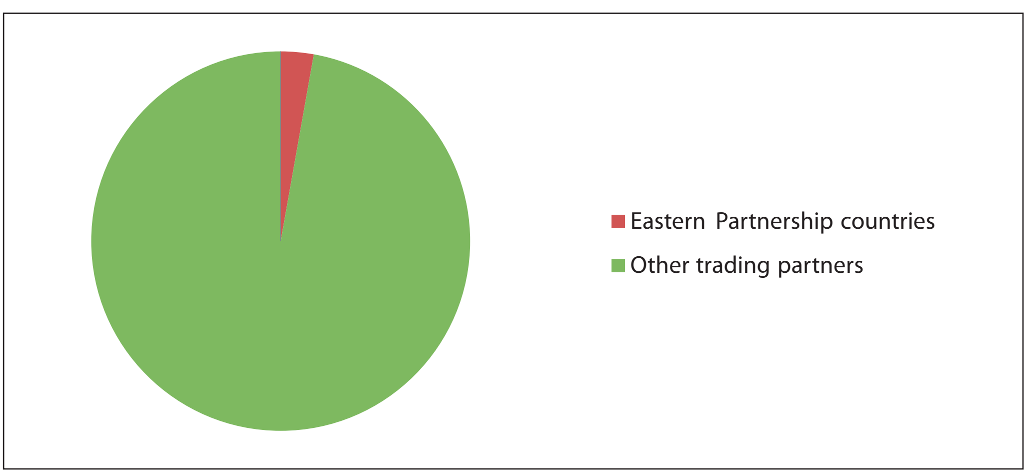
Over the last decade, Poland's economic relations with the rest of the world (EU and non-EU countries) have been significantly intensified. As an example, the total volume of Polish export has increased from EUR 34 billion in 2000 to EUR 136 billion in 2011.[22] Such an increase was a direct consequence of the impressive growth of the Polish economy and the country's integration with the EU common market. Also trade and investment co-operation with several developing and transition countries have significantly expanded in the recent years.

[22] Information transmitted by the Ministry of Economy of the Republic of Poland.

Poland's integration with the EU common market and elimination of trade barriers with other EU countries did not affect negatively the trade turnovers with the non-EU countries being Poland's main development co-operation partners. Also the year 2004 did not bring about the revolution in economic co-operation between Poland and its non-EU economic partners, as the country's trade policy was to a large extend adjusted to the EU trade *acquis* already before 1 May 2004. After the accession the conditions of market access for Polish products to the DTC markets did not change too much. They became even more advantageous in relation to countries that have been in the customs union or free-trade area with the EU and with whom Polish trade before 2004 was regulated by the Most Favorite Nation (MFN) clause. On the other hand, trade conditions have deteriorated partly in relation to markets that imposed anti-dumping or correction duties on import from the whole EU as a reaction to the subsidies used by the EU within its Common Agriculture Policy (CAP). It does concern among others China and Ukraine. Since 2004, Poland has also been obliged to use the EU system of quotas for certain types of commodities imported from a certain number of countries (including steel from Ukraine and some industrial products from China). On the other hand, from developing and transition countries' perspective, after the EU accession the Polish market of almost 40 million consumers has become more open to industrial products originating from non-EU countries as a result of the adoption by Poland of the EU tariffs on these goods (the average level of protection fell from around 12% to 4%).[23]

Despite the geographical proximity, the Eastern Partnership countries' share in Poland's total trade turnovers remains very small and in 2011 it constituted only around 2,8 % (EUR 8.1 billion) of the total trade turnovers (slightly more than the EU average). The volume of Polish export to six EaP countries totaled EUR 5.0 billion (3.7 % of total Polish export), while the country's import amounted to nearly EUR 3.1 billion (2% of the overall Polish import). With all countries the balance has been positive (export has been bigger than import) (see figure 2).

Figure 2. Eastern Partnership's share in total Poland's trade turnovers in 2011



Ukraine and Belarus are the key trading partners among Eastern Partnership countries. In 2011 Ukraine occupied the 10th position among Poland's export destinations (with 2.5% share in the whole Polish export), while Belarus was ranked at 22nd position with 1.0% of share in the country' export. On the other hand, Poland's trade with the remaining Eastern Partnership countries has been limited. This is a natural consequences of the relatively small size of their economies and bigger geographical distance. (see the table 3).

[23] A. Kuś, *Wspólna Polityka Handlowa Unii Europejskiej a pozycja Polski na arenie międzynarodowej*. Biuletyny SAWP KUL. Nr 2.

Table 3. Poland's trade turnovers with the Eastern Partnership countries in 2011

	Export (from Poland) in EUR million in 2011	Import (to Poland) in EUR million in 2011	Balance in EUR million in 2011
Ukraine	3.377	2.012	1.365
Belarus	1.340	973	367
Moldova	136	62	74
Azerbaijan	91	3	88
Georgia	46	8	39
Armenia	16	1	15
POLAND TOTAL	136.694	152.568	– 15.874

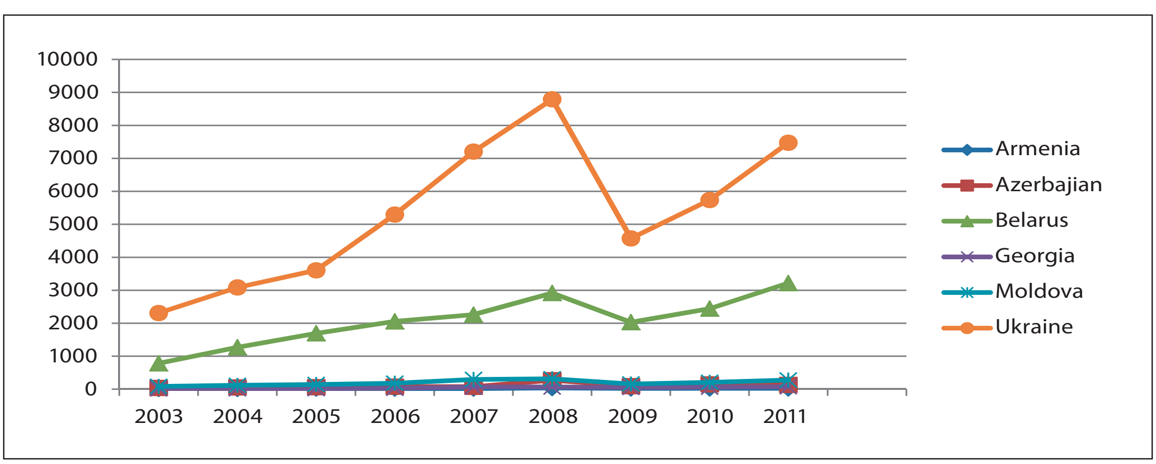
Source: Ministry of Economy of the Republic of Poland and Central Statistical Office

Since Poland joined the EU in 2004 its trade turnovers with six Eastern Partnership countries have trebled. According to the Polish trade and development experts,[24] the increase of trade turnovers between Poland and EaP countries stems in particular form the quick development of Poland and expansion of its economy, but also from the GNI and purchasing power increase in several Eastern Partnership countries.

Nevertheless, the increase of trade turnovers between Poland and Eastern Partnership countries has not been linear but rather subject to fluctuations. In the case of most partner countries the commercial relations have progressively intensified until 2008, then they dropped rapidly (which may be a direct consequence of the global financial crisis), to rebound again in 2009. In 2011, the trade turnovers have not come back yet to the levels from before the crisis in relation to most EaP countries. The global economic conditions may therefore be considered as another important determinant of the dynamic of trade relations between Poland and its Eastern European ODA partners, even more important than the changes in trade regime resulting from Poland's accession to the European Union.

The figures below show the dynamic of trade relations (export and import combined) between Poland and Eastern Partnership countries in 2003-2011.

Figure 3. Trade turnovers between Poland and Eastern Partnership countries in 2003-2011 in USD million



[24] Interviews during the focus group discussion at the Institute of Public Affairs, Warsaw, 26 November 2012.

Figure 4. Trade turnovers between Poland, Belarus and Ukraine in 2003-2011 in USD million

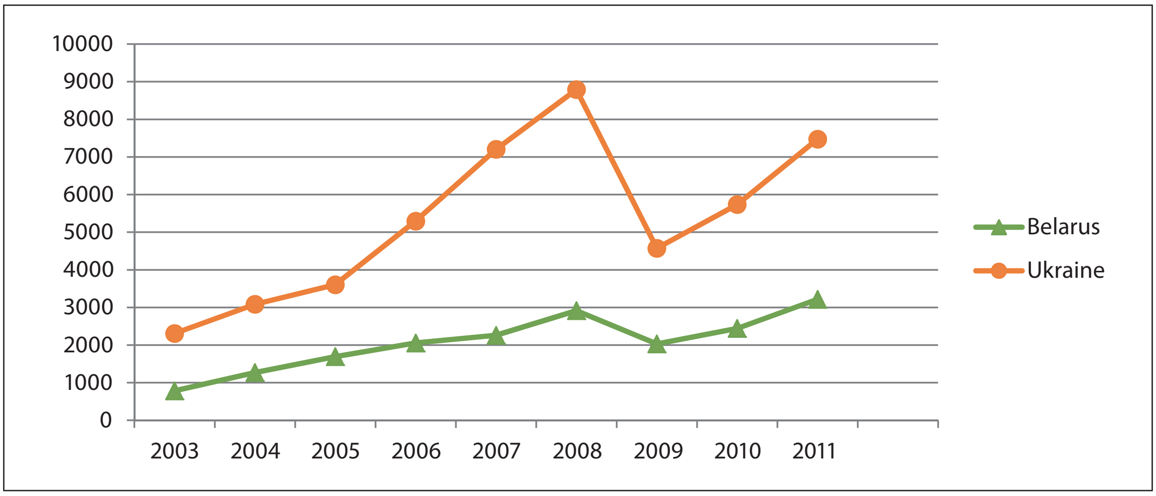
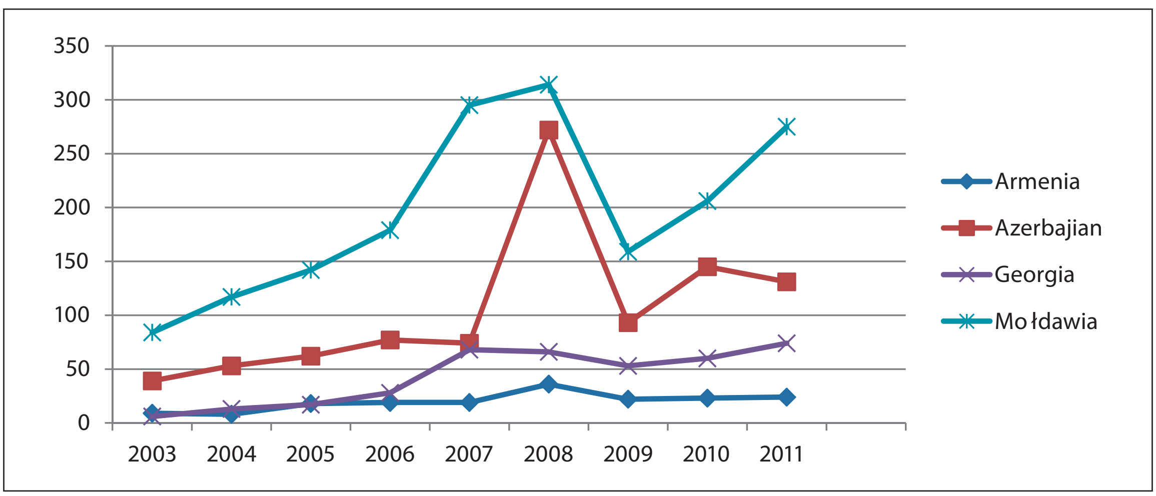


Figure 5. Trade turnovers between Poland and other EaP countries in 2003-2011 in USD million



Source: Ministry of Economy of the Republic of Poland, Central Statistical Office

2.4. Poland's trade turnovers with selected aid recipient countries after the EU accession – case studies

Armenia

<u>EU trade framework</u>

Armenia has been a member state of the World Trade Organization (WTO) since 2003. Current relationship between the European Union and Armenia is regulated by the Partnership and Cooperation Agreement which entered into force in 1999. It has not included tariff preferences, but prohibited quantitative restrictions in bilateral trade and also envisaged progressive regulatory approximation of Armenia's legislation and procedures to the most important EU and international trade related laws and standards which aims at facilitating access of Armenian products to the EU market.[25]

Armenia benefits from the EU's Generalised Scheme of Preferences (GSP). Under the current GSP Regulation, applying from 1 January 2009, it qualifies for the special incentive arrangement for sustainable development

[25] Agreement on Partnership and Cooperation Agreement between the European Communities and their Member States, of the one part, and the Republic of Armenia, on the other hand , signed in Luxembourg on 22 April 1996 (Journal of Laws of 2006, No. 39, item. 269).

and good governance (GSP+), offering advantageous access to the EU market. This means that non-sensitive goods may be imported into the customs territory of the EU duty of 0% (with the exception of the agricultural component). Armenia has also embarked on talks for a Deep and Comprehensive Free Trade Area with the EU in early 2012.[26]

Bilateral agreements with Poland

Bilateral economic relations between Poland and Armenia are regulated by several acts including:

- Agreement on Economic Co-operation between the Government of the Republic of Poland and the Government of the Republic of Armenia on economic co-operation, signed on 12 March 2010;
- Convention between the Government of the Republic of Poland and the Government of the Republic of Armenia for the avoidance of double taxation and prevention of fiscal evasion with respect to taxes on income and capital, signed on 14 July 1999;
- Agreement between the Government of the Republic of Poland and the Government of the Republic of Armenia on Civil Air Transport, signed on 27 January 1998;
- Agreement on co-operation between the National Chamber of Commerce and the Chamber of Industry and Commerce of the Republic of Armenia signed on 28 July 2011.

Trade turnovers in 2003-2011

Table 4. Trade turnovers between Poland and Armenia in 2003 – 2011 (in USD million)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Export	4.6	6.7	7.5	8.2	10.2	23.4	19.6	18.8	22.7
Import	0.6	1.0	10.0	10.3	8.3	12.2	2.9	3.9	1.1
Balance	4.0	5.7	- 2.5	-2.1	1.8	11.2	16.7	14.9	21.6
Total turnovers	**8.6**	**7.7**	**17.5**	**18.5**	**18.5**	**35.6**	**22.4**	**22.7**	**23.8**

Source: Ministry of Economy of the Republic of Poland

Azerbaijan

EU Trade framework

Azerbaijan is not a member of the World Trade Organisation, but applied for membership in 1997 and the process is ongoing. The current relationship between the EU and Azerbaijan is governed by the Partnership and Cooperation Agreement which entered into force in 1999. Azerbaijan benefits from the EU's Generalised Scheme of Preferences (GSP). Under the current GSP Regulation, applying from 1 January 2009, it qualifies for the special incentive arrangement for sustainable development and good governance (GSP+), offering advantageous access to the EU market. This means that non-sensitive goods may be imported into the customs territory of the EU duty of 0% (with the exception of the agricultural component). In May 2011, the European Parliament extended the validity of the GSP + preferences for Azerbaijan to end of 2013.[27]

Azerbaijan needs first to accomplish its WTO accession before a Deep and Comprehensive Free Trade Agreement with the EU can be negotiated and signed. With a view to supporting Azerbaijan's future WTO membership and subsequent eventual DCFTA, negotiations on upgrading the existing trade related provisions of the Partnership and Cooperation Agreement (non-preferential trade and investment

[26] http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/regions/south-caucasus/

[27] Source: European Commission and the Ministry of Economy of the Republic of Poland.

agreement) were launched on 16 July 2010. Azerbaijan is also receiving technical assistance from the EU to help it prepare for WTO membership.[28]

Bilateral agreements with Poland

The economic co-operation between Poland and Azerbaijan is based on the following main agreements:

- Agreement on the avoidance of double taxation and prevention of tax evasion with respect to taxes on income and on capital signed on 26 August 1997;
- Agreement on reciprocal promotion and protection of investments signed on 26 August 1997;
- Economic cooperation agreement signed on 30 March 2005.[29]

Trade turnovers in 2003-2011

Table 5. Trade turnovers between Poland and Azerbaijan in 2003 – 2011 (in USD million)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Export	33.7	45.5	52.2	70.7	69.3	104.9	82.9	134.6	126.4
Import	4.8	7.1	10.2	6.5	4.4	167.1	10.3	10.3	4.3
Balance	28.9	38.4	42.0	64.2	57.6	-62.2	72.6	124.2	122.2
Total turnovers	**38.5**	**52.6**	**62.4**	**77.2**	**73.8**	**272.1**	**93.2**	**145.0**	**130.7**

Source: Ministry of Economy of the Republic of Poland.

Belarus

EU Trade framework

Belarus applied for membership of the WTO in 1993 and its accession process is ongoing. Poland supports Belarus WTO application. The bilateral trade and economic relations with the European Union remain covered by the Trade and Cooperation Agreement concluded by the European Community with the then Soviet Union in 1989 and subsequently endorsed by Belarus. In response to Belarus' lack of commitment to democracy and political and civil rights, the EU has not yet ratified the bilateral Partnership and Cooperation Agreement concluded with Belarus in 1995. In June 2007 the EU has also withdrew its trade preferences to Belarus under the Generalised Scheme of Preferences, in response to Belarus' violations of the core principles of the International Labour Organisation. The removal of the trade preferences in 2007 did not halt Belarus' exports to the EU. It simply returned Belarus' import tariffs to the standard non-preferential rate.[30]

Since 2010 the EU has imposed unilateral import quotas for Belarus covering trade in textile and clothing products. The unilateral quotas replaced the EU-Belarus textile agreement that Belarus no longer wanted to renew after joining the Customs Union with Russia and Kazakhstan. The EU has also introduced an Outward Processing Trade regime for Belarus. This regime provides for additional import quota amounts for textiles and clothing manufacturers within the European Union so they can produce garments in Belarus that will return to the EU after processing.[31]

[28] *Trade. Countries and regions. South Caucasus*. http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/regions/south-caucasus/.

[29] Information about Polish economic relations with Azerbaijan. http://www.mg.gov.pl/Wspolpraca+z+zagranica/Wspolpraca+gospodarcza+Polski+z+krajami+wschodnimi+i+pozaeuropejskimi/Azerbejdzan.htm.

[30] Trade. Countries and regions. Belarus, http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/belarus/.

[31] Ibidem.

Bilateral agreements with Poland

Since the Poland's accession to the EU, Polish economic co-operation with Belarus is regulated by trade agreements signed in 1989 between the EU (at that time the European Community) and the USSR. On 30 April 2004, Poland and Belarus signed an agreement on economic co-operation, which does not interfere with the powers of the EU. It was the legal basis for the establishment of a new Joint Polish - Belarusian Committee for Economic Cooperation. The Polish - Belarusian economic relations are also regulated by other contracts and agreements, including intergovernmental agreements on the avoidance of double taxation of 1992 and on the reciprocal promotion and protection of investments, also of 1992.[32]

Trade turnovers in 2004-2011

Table 6. Trade turnovers between Poland and Belarus in 2004 – 2011 (in USD million)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Export	396.5	568.2	720.5	977.4	1121.5	1602.4	1213.8	1605.2	1861.9
Import	387.0	701.9	972.3	1078.6	1140.0	1312.6	818.5	837.5	1355.4
Balance	9.5	-133.7	-251.8	-101.2	-18.5	290.8	395.3	767.7	506.5
Total turnovers	**783.5**	**1.270.1**	**1692.8**	2056.0	2261.4	2915.0	2032.3	2442.7	3217.3

Source: Ministry of Economy of the Republic of Poland.

Georgia

EU Trade framework

Georgia has been the member of the World Trade Organisation since 2000. The current relationship between the EU and Georgia is regulated by the Partnership and Cooperation Agreement which entered into force in 1999. Georgia benefits from the EU's Generalised Scheme of Preferences (GSP). Under the current GSP Regulation, applying from 1 January 2009, it qualifies for the special incentive arrangement for sustainable development and good governance (GSP+), offering advantageous access to the EU market. This means that non-sensitive goods may be imported into the customs territory of the EU duty of 0% (with the exception of the agricultural component). In December 2011 the Commission concluded (following a lengthy preparatory process) that DCFTA negotiations could start with Georgia as an integral part of currently negotiated Association Agreement. Georgia embarked on these negotiations in early 2012.[33]

Bilateral agreements with Poland

Bilateral economic relations between Poland and Georgia are regulated by a couple of agreements in particular on avoiding double taxation and prevention of tax evasion signed in 1999 and on economic co-operation signed in 2007.

[32] Information about Polish economic relations with Belarus. http://www.mg.gov.pl/Wspolpraca+z+zagranica/Wspolpraca+gospodarcza+Polski+z+krajami+wschodnimi+i+pozaeuropejskimi/Bialorus.htm

[33] *Trade. Countries and regions. South Caucasus*. http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/regions/south-caucasus/.

Trade turnovers in 2003-2011:

Table 7. Trade turnovers between Poland and Georgia in 2004 – 2011 (in USD million)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Export	4.1	10.6	12.8	24.2	61,3	51,8	46,2	51,2	64,3
Import	1.4	2.7	3.7	3.4	7,0	14,6	6,8	8,7	10,2
Balance	2.7	7.9	9.1	20.8	54,3	37,2	39,4	42,5	53,1
Total turnovers	**5.5**	**13.3**	**16.5**	**27.6**	**68,3**	**66,4**	**53,0**	**59,9**	**74,5**

Source: Ministry of Economy of the Republic of Poland.

Moldova

EU Trade framework

Moldova has been a member of the World Trade Organisation since 2001. It has a non-preferential Partnership and Co-operation Agreement with the EU since 1994. Moldova's export to the EU is already liberalised to a large extent under the EU Autonomous Trade Preferences. This preferential regime (together with Generalised Scheme of Preferences Plus regime) offers the most favourable access to the EU market for Moldova. It grants Moldova unlimited and duty free access to the EU market for all products originating in this country, except for certain agricultural products (for which tariff rate quotas are defined).

The EU is negotiating a new Association Agreement with Moldova since January 2010. The negotiations on the trade part of this agreement (Deep and Comprehensive Free Trade Area) started in February 2012. Moldova is also a party to the amended and enlarged Central European Free Trade Agreement (CEFTA), which entered into force in July 2007.

Bilateral agreements with Poland

On 7 September 2006, the Government of Poland and the Republic of Moldova signed an agreement on economic co-operation, which does not interfere with the powers of the EU. It entered into force on 24 May 2007. The agreement provides a legal basis for the new Polish - Moldovan Commission for Economic Cooperation. The Polish - Moldovan economic relations are also regulated by other contracts and agreements, including intergovernmental agreements on the avoidance of double taxation of 1994 and reciprocal promotion and protection of investments also of 1994.[34]

Trade turnovers in 2003-2011

Table 8. Trade turnovers between Poland and Moldova in 2004 – 2011 (in USD million)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Export	79.8	93.3	111.0	139.2	173.6	184.2	122.0	154.8	189.6
Import	4.1	23.3	31.5	39.7	121.4	130.1	37.5	50.7	86.1
Balance	75.7	70.0	79.5	99.5	52.2	54.5	84.5	104.1	103.5
Total turnovers	**83.9**	**116.6**	**142.5**	**178.9**	295.0	314.3	159.5	205.5	275.7

Source: Ministry of Economy of the Republic of Poland.

34 *Moldova. Information on economic cooperation with Poland.* http://www.mg.gov.pl/node/7294?theme=mg.

Ukraine

EU Trade framework

In May 2008, Ukraine became a member of the World Trade Organisation, assuming a number of obligations, including the liberalization of market access. Ukrainian export to the European Union is to a large extent liberalised due to the Generalised Scheme of Preferences granted by the EU to Ukraine since 1993. Preferential imports to the EU from Ukraine include machinery and mechanical appliances, plants, oils, base metals, chemicals and textiles. Following Ukraine's WTO membership, the EU and Ukraine immediately launched negotiations an agreement on a Deep and Comprehensive Free Trade Area. The negotiations were launched in 2008 and they have now been concluded. The DCFTA will be part of a future Association Agreement, which will replace the present Partnership and Cooperation Agreement between the EU and Ukraine (which entered into force in 1998). The initialing of the EU-Ukraine Association Agreement took place in Brussels in March 2012, except for the DCFTA which was initialed on 19 July 2012. Since the entire Agreement has now been initialed, the next step will be the signature of the Agreement by the Council when the political conditions are met. The future free trade agreement between the EU and Ukraine will cover all trade-related areas (including services, intellectual property rights, customs, public procurement, energy-related issues, competition, etc.) and also tackling the so-called "beyond the border" obstacles through deep regulatory approximation with the trade-related EU *acquis*.[35]

Bilateral agreements with Poland

The bilateral economic relations between Poland and Ukraine are based among others on the following documents:

- Agreement between the Government of the Republic of Poland and the Government of Ukraine on mutual promotion and protection of investments signed in 1993;
- Convention between the Government of the Republic of Poland and the Government of Ukraine for the avoidance of double taxation and prevention of fiscal evasion with respect to taxes on income and on capital signed in 1993:
- Agreement between the Government of the Republic of Poland and the Cabinet of Ministers of Ukraine on economic cooperation signed in 2005.[36]

Trade turnovers in 2003-2011

Table 9. Trade turnovers between Poland and Ukraine in 2004 – 2011 (in USD million)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Export	1564.5	2039.9	2593.2	3974.7	5511.2	6436.7	3429.9	3917.4	4694.2
Import	746.2	1045.1	1012.2	1 321.3	1693.5	2354.7	1143.6	1818.5	2781.5
Balance	818.3	994.8	1581.0	2 653.4	3818.7	4095.5	2286.3	2098,8	1912.8
Total turnovers	**2310.7**	**3085.0**	**3605.4**	**5296.0**	**7204.7**	**8791.4**	**4573.5**	**5735.9**	**7475.7**

Source: Ministry of Economy of the Republic of Poland.

35 More information about EU trade relations with Ukraine: http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/ukraine/.

36 Information about Polish economic relations with Ukraine. http://www.mg.gov.pl/Wspolpraca+z+zagranica/Wspolpraca+gospodarcza+Polski+z+krajami+wschodnimi+i+pozaeuropejskimi/Ukraina.htm#

3. Other trade related activities in recipient countries

3.1. Foreign Direct Investments (FDI)

In 2010 the net outflow of capital from Poland as a result of Foreign Direct Investments (FDI) amounted to EUR 4.1 billion. In the same year the total cumulated value of Polish FDI reached EUR 29.4 billion. In 2010 the bulk of Polish FDI were located in the OECD countries (76.5%) and the EU member states (71.7%). Besides, 93.6 % of Polish Foreign Direct Investments were located on the European continent. The main recipients of Polish FDI were Luxembourg, Switzerland, the Netherlands, the United Kingdom, the Czech Republic, Germany and Belgium.[37] The key recipients of Poland's Official Development Assistance (ODA) – including the Eastern Partnership countries – are not among the main recipients of the Polish foreign investments. The only EaP countries in which Polish companies have invested recently on a more substantial basis are Ukraine and Belarus.

Over the last decade, Polish investments in Ukraine have been systematically growing with a cumulative volume of FDI increased from EUR 45.1 million in 2000, through EUR 109.7 million in 2003, EUR 283.4 million in 2006 and EUR 497.5 million in 2008, until EUR 628.6 million in 2011[38]. These figures place Poland at 13th position among the main foreign investors in Ukraine (1.8% of total FDI in this country). More than 50% of Polish FDI have been located in the financial sector[39]. At the end of 2010 Polish enterprises have hold 24 affiliates in Ukraine.[40]

In Belarus, the size of Polish capital employed calculated cumulatively since 1991 is estimated at approximately USD 400 million. In 2011, the level of total investment amounted to EUR 61.5 million, which places Poland at 12th position among foreign investors in Belarus. Polish capital is primarily engaged in the production of food, wood and wood manufacturing, furniture, packaging and products made of plastic and rubber, as well as agriculture.[41]

Apart from Ukraine and Belarus, the level of Polish FDI in other Eastern Partnership countries is very limited. The total volume of capital invested in Moldova amounts to around EUR 0.4 million. Polish companies' interest in Georgia as a potential investment partner is only beginning. Despite the agreement on reciprocal promotion and protection of investments signed in 1997 there is practically no Polish investors in Azerbaijan. There is also lack of Polish FDI in Armenia.

The experts of the Centre for Global Development (CGD) compiling data for the Commitment to Development Index (CDI) last year (see also Chapter 1), highlighted that the Polish government has done little so far to promote responsible Foreign Direct Investment in developing countries. Despite a certain number of strengths (employing foreign tax credits to prevent double taxation of corporate profits earned abroad and no restrictions on pension fund investment in emerging markets), Poland has still its homework to do. In particular it has not yet completed Phase 3 of the OECD Convention on Bribery and loopholes exist

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[37] Wsparcie polskich firm za granicą. http://www.paiz.gov.pl/wsparcie_polskich_firm.

[38] Data of the State Statistics Services of Ukraine available at the website of the Polish Embassy in Kiev: http://www.msz.gov.pl/resource/d7263770-072d-4489-9132-1337b58865a5. (to show the dynamic original data in USD were transferred into EUR on the same 2011 EBC exchange rate).

[39] See information on Polish FDI in Ukraine: http://www.paiz.gov.pl/wsparcie_polskich_firm/ukraina. For instance the PZU Group started offering its insurance products (property insurance, life insurance, and related services) in Ukraine in 2002. Another financial group, the PKO BP acquired a majority stake in Ukrainian KREDOBANK SA in 2004, currently having about 130 branches. The same region for outward investment was chosen by Getin Holding, which established its foreign affiliates among others in Ukraine and Belarus. See also: Polish multinationals go beyond Europe. Report by the Institute for Market, Consumption and Business Cycles Research and Vale Columbia Center for Sustainable International Investment, Warsaw and New York 2012.

[40] *Polish multinationals go beyond Europe*. Report by the Institute for Market, Consumption and Business Cycles Research and Vale Columbia Center for Sustainable International Investment, Warsaw and New York 2012.

[41] Information about Polish economic relations with Belarus. http://www.mg.gov.pl/Wspolpraca+z+zagranica/Wspolpraca+gospodarcza+Polski+z+krajami+wschodnimi+i+pozaeuropejskimi/Bialorus.htm.

in domestic legislation permitting bribe payers to circumvent the OECD Convention. In addition there is weak leadership in extractive industry transparency initiatives.[42]

3.2. Infrastructure development and transfer of technology

Due to the profile of its development aid programme, highly focused on democracy promotion and soft projects, Poland is not very active in helping other countries upgrade their infrastructure or in transferring technology on concessional terms. Only a few projects consisting in building or rebuilding roads (in particular in Afghanistan) have recently been implemented from the Polish Aid funds (see section on Aid for Trade below). One of the exceptions could be the project called "GreenEvo - Green Technology Accelerator" that is to be executed by the Ministry of Environment of Poland. Its general aim is to support domestic companies involved in development of green technologies and promotion of their unique products in international markets. One of the component of the project is to be the implementation of environmentally sound technological knowledge and expertise in Armenia and Azerbaijan for integrated interventions in the area of poverty reduction, environmental protection and counteracting climate change. The project is to be implemented by United Nations Development Programme (UNDP) offices in the field involving primarily Polish green businesses and professionals. The project is expected to last 3 years (from late 2012 onwards).[43]

3.3. Technical assistance for trade policy development – Aid for trade agenda

a) Aid for trade – concept and evolution

Opening the economy to international trade is not enough to reap benefits for globalization. This is the main reason why many developing and transition countries ask for assistance in building their trade-related capacity in terms of information, policies, procedures, institutions and infrastructure so as to integrate and compete effectively in global markets. To address this issue, the World Trade Organization (WTO) has led the call for "aid for trade".[44]

Aid for trade is not a new global fund, nor a new aid category but an integral part of regular Official Development Assistance (ODA). It aims to help developing countries overcome the supply-side and trade-related infrastructure constraints that inhibit their ability to benefit from market access opportunities.[45]

Aid for trade entered the WTO agenda with the Doha Development Round. In 2005 several donors, including the EU and its Member States, made commitments to increase their trade-related support. Also in 2005, the WTO Ministerial Conference in Hong Kong set up a Task Force to operationalise aid for trade. In its 2006 recommendations, this Task Force stated that "projects and programmes should be considered as aid for trade if these activities have been identified as trade-related development priorities in the recipient country's national development strategies". It also specified six groups of activities that it considered to constitute aid for trade, while dividing them into typical aid for trade projects (Trade Related Assistance) and those more indirectly linked to the promotion of trade policy (Wider Trade Agenda) (see box below).

[42] David Roodman, Julia Clark, Poland Country Report, Centre for Global Development, Washington 2012.

[43] Information received from the UNDP Project Office in Poland.

[44] *Aid for Trade. Showing Results,* OECD-WTO factsheet: http://www.oecd.org/aidfortrade/49015161.pdf.

[45] Ibidem.

Box 3. Aid for trade categories

TRADE RELATED ASSISTANCE:

Category 1 — Trade policy and regulations: trade policy and planning, trade facilitation, regional trade agreements, multilateral trade negotiations, multi-sector wholesale/retail trade and trade promotion. Includes training of trade officials, analysis of proposals and positions and their impact, support for national stakeholders to articulate commercial interests and identify trade-offs, dispute issues, and institutional and technical support to facilitate implementation of trade agreements and to adapt to and comply with rules and standards.

Category 2 — Trade development: investment promotion, analysis and institutional support for trade in services, business support services and institutions, public/private-sector networking, e-commerce, trade finance, trade promotion, market analysis and development. This is largely a subset of Category 4 (building productive capacity, see below), specifically the most trade-related components.

WIDER AID FOR TRADE AGENDA:

Category 3 — Trade-related infrastructure: physical infrastructure including transport and storage, communications, and energy generation and supply.

Category 4 — Building productive capacity: Includes business development and activities aimed at improving the business climate, privatisation, assistance to banking and financial services, agriculture, forestry, fishing, industry, mineral resources and mining, tourism. Includes trade- and non-trade-related capacity building.

Category 5 — Trade-related adjustment: This code was created by OECD/DAC at the end of 2007. It covers contributions to the government budget to assist with the implementation of recipients' own trade reforms and adjustments to trade policy measures taken by other countries; and assistance to manage balance of payments shortfalls due to changes in the world trading environment.

Category 6 — Other trade-related needs: Refers to programmes supporting trade in sectors not comprised in the other five categories, such as vocational training or public sector policy programmes. Is also used to report on larger cross-sectoral programmes with important subcomponents in the other AfT categories. This is useful, as the CRS methodology requires the use of one single CRS code per reported programme, an approximation which limits in some cases the ability of the CRS to capture TRA.

Source: WTO and the European Commission

The European Union has made important commitment related to aid for trade. In 2005, the EU made specific financial commitments, pledging to strive to increase its collective expenditures on it to EUR 2 billion per year from 2010 (EUR 1 billion of it in Community aid and EUR 1 billion in bilateral aid from the Member States).[46] In October 2007 the EU adopted also an Aid for Trade Strategy that aims at supporting all developing countries to better integrate into the rules-based world trading system and to use trade more effectively in the fight against poverty.[47]

b) Poland's approach to aid for trade

Aid for Trade is not mentioned in the strategic documents constituting the political framework for Polish Aid programme. Responding to the OECD-WTO Donor Questionnaire on Aid for Trade in 2009, Poland mentioned that although it does not have the aid for trade strategy it pays attention to the issue of integrating trade into development strategies and aspect of assisting developing countries in carrying out domestic reforms. Poland also declared that it was going "to streamline its efforts to increase the overall level

[46] See the EU Aid for Trade website: http://ec.europa.eu/trade/wider-agenda/development/aid-for-trade.

[47] *EU Strategy on Aid for Trade: Enhancing EU support for trade related needs in developing countries.* European Commission, Brussels 2007.

of technical assistance to developing countries – with special attention to the countries in [WTO] accession – like Azerbaijan and Afghanistan".[48] At the same time, Poland highlighted the challenges in implementing aid for trade agenda, namely:

- Lack of (or weak) articulated demands for regional aid for trade;
- Lack of coherence between national and regional priorities;
- Lack of credible lending authorities at regional level;
- Lack of effective coordination at regional level;
- Difficulties of monitoring and evaluating results at regional level;
- Lack of credible mutual accountability mechanisms at regional level.[49]

c) Volume of Polish aid for trade

It is quite difficult to assess the volume of Poland's aid for trade activities. The Polish government has faced some difficulties in providing the WTO and the OECD with data indicating how much ODA qualifying as aid for trade Poland had allocated in 2006 and 2007 in total figures and as a percentage share of the total country's ODA.[50] Poland explained that at that stage of building its development assistance system it was not able "to indicate how many of ODA activities could be qualified as a pure aid for trade".[51] Nonetheless, responding to the European Commission questionnaire for the EU monitoring report on aid for trade, Poland indicated that between 2000 and 2008 it spent EUR 8 thousand for this purpose (in 2008).[52]

The Polish Ministry of Foreign Affairs declares that between 2007 and 2012 it spent PLN 45.520 thousand (EUR 10.840 thousand) on aid for trade plus separately USD 4.862 thousand for development projects that directly or indirectly affect trade of developing countries. These projects focused mostly on building-up or modernizing infrastructure (in particular roads construction) and developing production capacity (supporting producers' groups and microenterprises and agricultural co-operatives). They were implemented in Afghanistan, Armenia, Belarus, Georgia, Kazakhstan, Kosovo, Moldova, Palestine, Ukraine, Sudan, Tanzania and Vietnam.[53]

A careful analysis of information on aid projects implemented by Poland between 2006 and 2011 and included in the official reports published by the Ministry of Foreign Affairs, enables to identify a couple of bilateral projects that really help partner countries integrate with the world trade system and fall within the first two categories of aid for trade classification (trade related assistance). They are summarized in a table 10 below. What is interesting, no "pure" aid for trade projects were implemented in 2010, neither in 2011.

[48] *OECD/WTO Donor Questionnaire on Aid for Trade (Poland):* http://www.oecd.org/dac/aidfortrade/43150151.pdf.

[49] Ibidem.

[50] Both organizations have asked to use the WTO Task Force definition.

[51] Ibidem.

[52] *Aid for Trade. Report 2012.* European Commission, Brussels 2012, p. 65. http://trade.ec.europa.eu/doclib/docs/2012/november/tradoc_150104.pdf.

[53] Information transmitted by the Ministry of Foreign Affairs of Poland.

Table 10. Trade Related Assistance bilateral projects implemented within the Polish Aid programme in 2006-2009.

Year	Beneficiary Country	Name of the project	Implementing institution
2006	Ukraine	Overcoming non-trade barriers in the development of the Ukrainian export to the EU	CASE – Centre for Social and Economic Research
2006	Ukraine	Co-operation among authority, business and social initiatives towards the WTO	Ukrainian Centre for International Integration – International Social Organisation
2006	Ukraine	Ukrainian accession to the WTO – perspectives and challenges for SMEs	Ukrainian Centre for International Integration – International Social Organisation
2006	Moldova	Support for the Ministry of Agriculture and Food Industry of the Republic of Moldova in the realm of intervention mechanisms in agricultural markets and the approximation to the EU law	Agricultural Market Agency
2006	Moldova	Study visit to the Ministry of the Treasury of the Republic of Poland for civil servants from the Ministry of Commerce and Privatisation Agency of Moldova	Ministry of the Treasury
2007	Ukraine	Developing new standards of functioning for business associations and adaptation to the WTO membership requirements	Polish Embassy in Kiev
2007	Moldova	Strengthening Moldovan small and medium enterprises' activity in the field of export to the Single European Market	Association of Economic Consultants "Pro-Academia"
2007	Azerbajian	Introduction of goods into the EU market. Training for Azeri consultants from government and non-governmental organizations in the field of introducing national products into the EUmarket	Polish Agency for Enterprise Development
2008	Ukraine	Support for the implementation of the provisions of bilateral agreements between Ukraine and the World Trade Organization (WTO) at the level of small and medium-sized enterprises	Association of Economic Consultants Pro-Academia
2008	Ukraine	Training for representatives of the Ukrainian administration and business environment in the field of introduction of goods into the European Union market	Polish Agency for Enterprise Development
2008	Moldova	Support for Moldavian Veterinary Services in modernization of veterinary surveillance in order to prepare it for European Union membership	General Veterinary Inspectorate
2008	Azerbaijan	Implementation of WTO rules in the national law of the Republic of Azerbaijan in the field of agriculture	Department of Bilateral Economic Co-operation, Ministry of Economy
2009	Ukraine	Support for Ukrainian veterinary services in strengthening animal disease control, fodder and animal by-product supervision based on EU's veterinary regulations	General Veterinary Inspectorate
2009	Bangladesh	Create your own future – volunteering for self-employment through co-operation with fair trade organisations in Dhaka	"One World" Association
2009	Azerbajian	Implementation of WTO regulations in Azerbaijan's legal provisions concerning the agricultural sector	International Bilateral Co-operation Department, Ministry of Economy

Source: Poland's Development Co-operation (Annual Reports 2007-2011)

The box below contains information on three aid for trade projects implemented recently by Poland from its Official Development Assistance funds.

Box 4. Examples of Polish aid for trade projects

In 2006 the Polish MFA made a voluntary contribution of USD 150 thousand to the budget of the United Nations Industrial Development Organization (UNIDO) earmarked for the implementation of a technical assistance project "Upgrading Ukraine's Food Safety Standards". The main goal of this project was to enhance the export potential of Ukraine through improving the quality and safety of food produced in Ukraine, in particular by the small and medium size enterprises (SMEs).

In April 2012 the Polish Government took a decision to earmark part of its unspent contribution to UNIDO (Unutilized balances of appropriations – Ubs) in the amount of USD 108 thousand to the implementation of project "Eastern Partnership: Trade Capacity Building in Central Asia, Caucasus and Western CIS". Within the project two training sessions for the representatives of ministries of trade and economy and of the NGOs from Central Asia and Western part of Community of Independent States will be held in 2013. [54]

In November 2008, within the project "Implementation of WTO regulations into the Azerbaijani legislation in the agricultural filed" Polish experts from the Ministry of Economy and the Ministry of Agriculture conducted a workshop for representatives of Azerbaijani administration, scientific institutions and NGO's. The workshop was organized in cooperation with the Ministry of Economic Development of the Republic of Azerbaijan. In the case of Afghanistan the efforts were concentrated on substantial increasing the ability of Azerbaijan to participate in the global trade in more substantial manner. [55]

Source: Ministry of Economy of the Republic of Poland

4. Bottlenecks and solutions

Despite the recent expansion of trade turnovers between Poland and its ODA priority countries in Eastern Europe and the increase of Polish FDI in the region, several problems and challenges still exist. The Ministry of Economy of Poland has identified a certain number of challenges that the Polish private sector needs to face while trading with or doing business in Eastern European countries. What is important, they do not stem from the EU trade regime, but mostly from the internal situation in the countries in question. Obviously, the situation varies from one country to another. For instance, the economic relations with Georgia and Moldova are considered as very good, but the potential of these countries is limited. Ukraine and Belarus are much more important but – at the same time – more difficult partners.

The case of Ukraine is particularly relevant, as this country is the most important Poland's commercial partner among all European ODA recipient countries. The systemic barriers that hinder economic cooperation with Ukraine include among others:

- Lack of transparency and high volatility of Ukrainian legislation;
- Complex and opaque procedures;
- High levels of corruption in different spheres of economic life;
- Insufficient level of the judiciary, lack of efficient and objective economic disputes, failure to comply with court judgments.[56]

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[54] Information transmitted by the Ministry of Economy of the Republic of Poland.

[55] OECD/WTO Donor Questionnaire on Aid for Trade (Poland): http://www.oecd.org/dac/aidfortrade/43150151.pdf.

[56] Source: Ministry of Economy of the Republic of Poland and opinions of experts gathered during the focus group discussion on 26 November 2012.

The political situation in Belarus, is rather not considered as a big problem in economic relations between Poland and this country. For several Polish business people it is easier to trade with and invest in Belarus than with/in Ukraine. On the other hand, certain steps against non-democratic regimes (in particular, the EU economic sanctions against Belarus, often initiated or supported by Poland) might be detrimental for the Polish economy, in particular for the bordering regions for which trade relations with neighbouring Belarus is key.[57] This highlights the potential tensions in Polish approach to one of its neighbours and a necessity to carefully balance country's political and economic interests as well as needs of the partner country's society.

This analysis has shown that the key recipients of Poland's Official Development Assistance (ODA) were not the main recipients of the Polish Foreign Direct Investments (FDI). Apart from Ukraine and Belarus, the level of Polish FDI in other EaP countries is very limited. The problem is not restrictions on Polish investments in EaP region but rather the limited eagerness of Polish firms to do business there. According to the Polish trade and development experts interviewed during the focus group discussion on 26 November 2012, the main problems encountered by Polish investors in EaP countries are bureaucracy, permanent changes in regulations and standards, corruption, as well as problems with VAT recovery. In the case of the South Caucasus countries the political instability and the risk of military conflicts are also discouraging factors.

Obviously, Poland's direct impact on the conditions of doing business in and trading with EU external partners (even the closest neighbours as the EaP countries) is limited, as they depend mostly on the development of political and economical situation in these countries, their willingness to reform and to improve the quality of institutions. It is the European Union as a whole that has enough instruments and assets to influence the developments in these countries in order to – on the one hand – promote its own interests and – on the other – support further economic and social progress in the region. In this context, the synergy and coherence between the EU trade and development policies has a paramount importance and as such should be accorded high priority by the EU Member States, including Poland.

Looking ahead, the trade and development initiatives of the EU as a whole are instrumental in promoting an open, rule-based, predictable, non-discrimatory trading and financial system. In relation to the EaP countries, the key instrument is the Deep and Comprehensive Free Trade Area (DCFTA). The DCFTA agreements are expected to resolve a certain number of problems in trade relations with EU's Eastern partners (pertaining in particular to the sanitary and technical norms, intellectual property rights, etc.). As mentioned above, there are still political problems blocking finalization of the DCFTA agreement with Ukraine, but DCFTA talks with Armenia, Georgia and Moldova progress without any particular problems and the agreements should be initialed by the Eastern Partnership Summit in November 2013. It is expected that the DCFTA would bring EaP countries closer to the EU. Therefore, it may also be considered as a tangible result of the Eastern Partnership initiative.[58]

Concluding remarks and recommendations

It is difficult to analyse simultaneously and on a comparative basis both trade and development policies, due to the huge differences between them in all aspects, in particular as it comes to new donors, such as Poland. Since Poland maintains its trade relations mostly with other EU Member States and through the engagement of the private sector, the development co-operation is oriented towards partners outside the EU (mostly EU's Eastern neighbours) and carried out primarily by civil society organizations. The opposition self interest – altruism may also be visible here. But more importantly development policy (in opposition to trade policy) is still in the early stage in Poland and finds itself at the margin of the interest of the government. In this context, while considering synergies and coherence between these two policies, it is

[57] Views of the Polish trade and development experts interviewed during the focus group discussion on 26 November 2012.

[58] Source: Ministry of Economy of the Republic of Poland

extremely important to withstand the tendency to subordinate aid to trade and to force development staff realize donor's commercial objectives.

The analysis outlined in this paper has shown that the main Poland's ODA partner countries were not the key priority trade partners and as such are less "vital" than the EU Member States for the country's well-being and its development prospects. Therefore, in relation to development co-operation partners (in particular the Eastern Partnership countries), the developmental (if not to say "altruistic") aspects could prevail over the national economic interests, or at least be equally important.

Nevertheless keeping the appropriate balance between these two policies is difficult due to the political framework stemming from the EU membership. Since trade policy is managed on the EU level and more than a half of Poland's development assistance is channeled through the Union's institutions, Poland's direct influence on social and economic situation and development prospects of its key ODA priority partners (the Eastern Partnership countries) through trade and/or aid is very limited. Other factors that limit the impact of the country's trade and development policies are the following:

- Relatively small budget for development co-operation in general and for bilateral aid in particular;
- A strong focus of Polish Aid programme on "democratization" and only indirect reference to the Millennium Development Goals;
- Lack of direct reference to economic development, trade policy and aid for trade in the strategic documents guiding national aid policy;
- Implementation of "soft" projects involving rather experience sharing than transfer of financial resources or realization of infrastructure projects.

In this context, Poland's contribution to developing an open, rule-based, predictable, non-discriminatory trading and financial system, even regarding the country's key aid partners (like six Eastern Partnership countries) may be ensured mostly due to its active membership in the European Union, participation in its development policy and in the EU trading system with developing and transition countries. It is also due to the EU membership that Poland has already received quite high scores in the Commitment to Development Index as it comes to the coherence between trade and development.

Taking into account all aforementioned remarks and considerations, including the EU competences in trade policy, it should be admitted that for new EU Member States such as Poland (being relatively new and small aid donors), the key way towards developing further an open, rule-based, predictable, non-discriminatory trading and financial system is to work actively on the EU level and try to influence the EU external relations policy in a spirit resulting from the Lisbon Treaty. At the same time, Poland could also attempt to improve those policies that are set on a national level (in particular bilateral development aid policy) to make them more conducive to the eventual realization of the MDG8.

The recommendations below apply therefore to both EU and national level of decision making process.

1. Poland could consider shifting the vectors of its aid programme towards economic development of its partner countries. Such a shift would be conducive to the implementation of the Millennium Development Goals (in particular MDG8), coherence between trade and development policies, co-operation between the Ministry of Foreign Affairs, Ministry of Economy and the Ministry of Finance as well as implementation of the aid for trade agenda. The forthcoming mid-tem review of the Multiannual Development Co-operation Programme 2012-2015 could provide a good opportunity for such a change.

2. In this context, Poland's "transition agenda" could be even more than now focused on "economic governance". Poland could therefore find its aid "niche" and "comparative advantage" in helping its partners creating the best conditions for economic growth and development. More emphasis could be put on reforms of the financial and banking sector, decentralization of public finance, privatization, development of small and medium size enterprises, attracting foreign direct

investment, as well as regional development policy and efficient absorption of aid funds. Such a technical assistance would be beneficial not only for Poland's development partners but also for Poland itself, as it would help create attractive markets for Polish products and safe harbours for Polish foreign investments.

3. Helping partner countries benefit from globalization through participation in the world trade as well as aid for trade could be explicitly mentioned in the key documents constituting the basis of the Polish Aid programme (Multiannual Development Co-operation Programme and annual aid plans). Following such a modification of the strategic documents, the consultation between the MFA, Ministry of Finance and the Ministry of Economy as well as with the governments of selected partner countries could be embarked-on in view of working out a comprehensive Polish aid for trade programme for the coming years. The Polish aid for trade programme could be implemented by the Ministry of the Economy, but controlled and co-ordinated by the Ministry of Foreign Affairs and financed from the ODA budget line. The creation of such a programme could lead to the increase of the share of aid for trade in the whole Poland's Official Development Assistance.

4. Poland could consider using its increasing Official Development Assistance as a diplomacy tool and as an instrument to pursue its national (including economic) interests in the key partner countries. In this context a sort of EU's "more for more" principle could be applied by the government of Poland, through offering more development aid to those partner countries that may demonstrate progress in fighting against corruption, ensure more stable policy towards foreign investors, eliminate bureaucratic barriers hampering doing business, etc.

5. If Poland wants to contribute more substantially to the economic progress of its ODA partner countries, it should consider complementing the transfer of experiences from successful transformation by more substantial financial assistance destined to improve the physical and economic infrastructure of the partner countries (building roads, schools, hospitals), even if at the beginning it would be on the small scale. The Polish Aid experiences from some partner countries (even such remote as Afghanistan) show that it is possible. It should be admitted that the Eastern European countries are still in need of more financial and infrastructural support (upgrading road and railway networks, modernizing ports, improving energy connections) and would welcome their closest EU partners' engagement in this respect.

6. The Polish private sector could be increasingly involved in the implementation of the Polish Aid programme, in particular in the realization of infrastructural, production and trade projects in Eastern Partnership countries. A comprehensive, systemic approach (involving changes in the current legislation) could be worked-out that would prohibit using ODA funds for commercial purposes and business promotion but would enable the business community to realize initiatives that aim at achieving MDGs (including MDG8) in the partner countries. In addition, a special business forum for development co-operation could be created to represent the needs and interests of firms engaged in realizing aid projects. In this respect Poland could benefit from the experiences of some more advance donors (like Sweden or Denmark) and look at the achievements of the Czech Republic.

7. The Ministry of Foreign Affairs could fully exploit already existing legal basis (the Act on Development Co-operation) to advance the implementation of the Policy Coherence for Development (PCD) principle and – in particular - to ensure that Poland's foreign economic policy takes into account development policy objectives. The Act authorizes the Minister of Foreign Affairs to provide opinions on all government programmes and strategies with regard to their coherence with the guiding lines of the Polish aid policy. This also applies to Poland's economic policy, which should take into account the goals and objectives of the country's development co-operation. Advancing PCD requires a permanent, inter-ministerial dialogue, mutual recognition of the ministries' respective competences and willingness to work together to ensure positive synergies between both policies and all actors involved. A first step in this direction could be setting-up of the sub-committee for

PCD working as a subsidiary body to the Development Co-operation Policy Council (as it is the case in the Czech Republic).

8. Poland could also promote Policy Coherence for Development at the international level, in particular while contributing to shaping the EU trade policy. While participating in the decision making process on trade policy in Brussels, Poland could continue to promote the development aspects of trade policy, in particular in relation to its key ODA partner countries. In particular, it could further work towards the final entry into force of the Deep and Comprehensive Free Trade Area (DCFTA) agreements with Armenia, Georgia, Moldova and Ukraine and analyze to what extent the new EU framework for economic relations with these countries takes into account their development objectives.

9. In relation to difficult development co-operation partners (in particular Belarus), Poland could carefully balance the political and economic interests of both countries and societies. The close co-operation between the Ministry of Foreign Affairs and the Ministry of Economy is key in this respect. The MFA's "democratization" agenda, promoted both bilaterally and on the EU level, could be complemented by more intensive dialogue on economic co-operation with Belarusian administration on the low level, followed by projects fostering economic development of Belarus. On the other hand, the defence of human rights and promotion of democracy in Belarus should not be detrimental to the economic interests of Poland, in particular its North-East regions.

10. Poland (the MFA, NGOs, think tanks) could enhance dialogue and co-operation with other new EU Member States that focus their aid programmes mostly on transition countries in Eastern Europe and Balkans in order to share experience on how to promote synergies between development and trade policy and how to make them both work for the progress in the region. The common agenda could comprise, among others, the following items:

    a. Economic governance as a "niche" and "comparative advantage" of aid programmes of the new EU Member States;

    b. Private sector involvement in implementing national aid programmes (maybe creation of a common business platform for development co-operation);

    c. Promotion and implementation of Policy Coherence for Development principle;

    d. Effective and common implementation of aid for trade projects in the partner countries;

    e. Influencing multilateral institutions, in particular the EU, to make trade work for development and promote positive changes in countries in transition;

    f. Efficient promoting responsible Foreign Direct Investments in countries in transition.

ROMANIA

1. General Introduction

The main trade-related target of MDG 8A, calls for the further development of an open, rule-based, predictable, non-discriminatory trading system. In order for trade to serve as an engine of growth, improvements to the current global trading system are required both on the demand and supply sides. Developing countries need assistance on the supply side to improve capacity and build new skills to produce goods and services and to more efficiently reach global markets. One of the indicators used to measure progress towards MDG 8 is the proportion of ODA allocated to building the supply side and productive capacity of the developing countries, including through Aid for Trade.

Promoting sustainable development in developing countries is a core objective of the Official Development Assistance (ODA), representing the flows of official financing. The EU is the largest ODA contributor but it does not function as a unitary actor on ODA policy, as it does in trade policy. Each member state still fields its own aid management structures, personnel and preferences. Therefore, bilateral development policies co-exist with community policies managed by the EC. In order to increase aid effectiveness and implement the requirements of the Paris Declaration on Aid Effectiveness a better coordination of policies and actions is necessary. Upon accession to the EU new member states (NMS) have made a commitment to meet the specific targets of ODA. Referring to their comparative advantages through the experience of transition to democracy and a market economy NMS put the emphasis on the transfer of transition experience to other post-communist countries, especially on the EU's Eastern and South-Eastern borders, boosting bilateral development cooperation. It is a fact that our countries tend towards development co-operation with countries with which they have either geographical or historical ties, combined with deploying comparative advantages, such as transition know-how, or limiting co-operation to a narrow range of sectors.

To implement and benefit from WTO agreements and to expand foreign trade, developing countries need to develop necessary trade-related skills and infrastructure. The Aid for Trade (AfT) initiative aims to help developing countries formulate and implement trade policies and practices (so called "Trade Related Assistance"), and support developing a wider economic capacity to trade (building trade related infrastructure and productive capacity). Donor countries' activities are considered as Aid for Trade only if they have been identified as trade-related development priorities in the recipient countries' national development strategies.

Civil Society Organizations (CSOs) are seen as distinct development actors, different from donors and governments. Sound economic policies involve a rational balance of responsibilities between the private sector, civil society and the public sector to secure sustained and widespread economic progress. CSOs can help design national strategies, deliver services, defend human rights, participate more actively in development aid.

The 4th High Level Forum on Aid Effectiveness, held in Busan, South Korea (29 November - 1 December 2011) agreed on Busan Partnership for Effective Development Cooperation through which governments, civil society organizations, private sector, local and regional organizations decided to get "united by a new partnership that is broader and more inclusive, founded on shared principles, common goals and differential commitments for effective international development." Article 32 stipulates the "**central role of the private sector in advancing innovation, creating wealth, income and jobs, mobilizing domestic resources and in turn contributing to poverty reduction**".[1]

The 3 researches on CSOs, private sector and Aid for Trade are part of the international project *Update of the current status of implementation of international/bilateral trade regimes with ODA recipients and the current role of civil society and private sector as development players in the new EU Member states* coordinated by the Center for Economic Development Foundation (CED) from Sofia – Bulgaria during January 2012 – June 2013. The project approaches are based on the needs and potential of the CED, its network partners based in the new EU member states and also other related to development national and EU stakeholders to run more effective and structured dialogue on the current status of implementation of MDGs, the 2008 Accra Agenda for Action and the 2011 Busan Partnership for Effective Development Cooperation just 3 years prior the agreed end period of their fulfillment.

The goal of the project is to build transnational alliances between 9 new EU member States so as to capitalize and disseminate their best network and advocacy practices on the occasion of the existent international trade systems with ODA recipients and the role of private and civil society actors as development actors. The project is simultaneous implemented in 9 NMS such as Poland, Czech Republic, Hungary, Slovakia, Slovenia, Estonia, Latvia, Bulgaria and Romania.

2. Methodology

The information analyzed for this research has been collected through official inquiries issued based on the Freedom of Information Act (also known as FOIA legislation - law no. 544/2001) to all 16 Ministries of the current Government, during September and October 2012. The data provided through the institutions' answers have been included in a data base and helped the project team analyzing the situation.

At the same time the information has been completed with opinions and suggestions from the governmental officials, trade associations, Chambers for Commerce and Industry and Embassies' representatives, all being interviewed by the IPP team (more than 15 officials) during October 2012. In addition to that, the conclusions and recommendations of the focus group organized by IPP on 14th of November, 2012 helped the project team prepare the reports on the actual situation of trade regimes with ODA recipients' countries.

National documents on aid for development and aid for trade and other document referring to trade relation with recipient countries have been studied by the team coordinating the project. The National Institute for Statistics proved to be another useful source of information for our research especially in what concerns data related to Romania's trade turnover with priority countries http://www.insse.ro/cms/rw/pages/index.ro.do .

The analysis covers the period 2007 through 2011. The exchange rate used is the InforEuro average for the period, namely 1 EUR = 4.25 RON

[1] http://www.oecd.org/dac/effectiveness/busanpartnership.htm

3. Facts and figures about ODA allocations in Romania

Since 2007, Romania is an official donor for Development Assistance for low income states fighting against poverty. The European Development Policy's basis has been established within the **Maastricht Treaty** (1993, *a policy in the sphere of development cooperation).*[2] The Romanian development international cooperation policy has been established during the **European Consensus on Development**[3] in 2005 signed by the Presidents of the Commission, of the Parliament and of the Council and adopted by the Member States.

The research main objective is to study and shape priorities within the Development Assistance policies undertaken by the Romanian Government through the designated authorities in the light of the ultimate objective that consists in *reducing poverty worldwide in the context of sustainable development, thus meeting the Millennium Development Goals (Millennium Declaration adopted in 2000)*[4] as follows:

- to eliminate extreme poverty and hunger;
- to achieve universal primary education;
- to promote gender equality and empower women;
- to reduce child mortality;
- to improve maternal health;
- to combat HIV/AIDS, malaria and other diseases;
- to ensure environmental sustainability; and
- to set up a global partnership for development.

As these goals should be achieved until 2015, the European Union calls for speeding up the process. Member States were suggested to increase their budget for Development Assistance and look for additional sources of financing to ODA. Commission's proposals in this respect were indeed ambitious namely a minimum individual target of 0.51% ODA/GNI (0.17% for new Member States) to be achieved by 2010, raising the EU collective average to 0.56%. At the same time, the Commission calls for *better quality aid, trade at the service of development while focusing on Africa.*[5]

In 2005 the Paris Declaration and in 2008 the Accra Agenda for Action were both deepening the implementation of a set of prior principle for making Aid more effective namely *ownership, alignment, harmonization, results and mutual accountability.*[6] The above mentioned documents set up concrete indicators for monitoring and evaluating the aid for development.[7] Romania adhered to both statements and continued with the Busan Partnership document (adopted during the Fourth High Level Forum on Aid Effectiveness in 2011) which agreed upon the *Global Partnership for Effective Development Co-operation to support and help ensure accountability for implementation at the political level.*[8]

At the national level, the legal and institutional framework for implementing the policy for development dates from 2006 in context of the adoption of the National Strategy for International Development Cooperation Policy respectively the Action Plan (Government Decision no 703/2006). The entire funding system for ODA within the Ministry of Foreign Affairs' budget was established within the law no. 404/2006, the Multiannual Strategy for ODA (adopted in 2011) and Government Decision no. 1052/2011 with regards to the specific actions funded under ODA. For 2007 – 2011 priority countries for Romania were *the Republic of Moldova, Georgia and Republic of Serbia*. In 2011, alongside Moldova, Serbia and Georgia, some projects were

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2 http://eur-lex.europa.eu/en/treaties/dat/11992M/htm/11992M.html#0001000001

3 http://europa.eu/legislation_summaries/development/general_development_framework/r12544_en.htm

4 http://europa.eu/legislation_summaries/development/general_development_framework/r12533_en.htm

5 http://europa.eu/legislation_summaries/development/general_development_framework/r12533_en.htm

6 http://www.oecd.org/dac/aideffectiveness/parisdeclarationandaccraagendaforaction.htm

7 http://www.oecd.org/dac/aideffectiveness/parisdeclarationandaccraagendaforaction.htm#Accra

8 http://www.oecd.org/dac/aideffectiveness/busanpartnership.htm

financed in countries like Tunisia, Belarus and Egypt as a response to the problems and evolutions in the North Africa.[9] For 2012 – 2015, Romania aims at supporting a larger list of countries namely *the Republic of Moldova, Ukraine, Belarus, Georgia, Armenia, Azerbaijan, Egypt, Tunisia, Libya, Iraq, Palestine and Afghanistan.*[10]

Unfortunately, currently the National Strategy for Development Cooperation Policy has not been updated since 2006,[11] civil society publicly arguing that the objectives and priorities assumed are no longer adapted to the current challenges and that it needs to benefit from a public debate followed by urgent amendments' issuing. However, we will take into consideration the laws in force in order to analyze the development policy and trade relations with ODA states at the level of Romania.

The National Strategy for International Development Cooperation Policy defines the Geographic and sectoral priorities for Romania. According to this document, Romania is committed to provide support to the Eastern European countries, the West Balkans and South Caucasian's.

The specific fields of expertise that Romania offers support in are the following:

- Good governance
- Strengthening of democracy and rule of law
- Economic development
- Education and career development/employment
- Health
- Infrastructure and environment protection.

Romania grants bilateral and multilateral (through the UN Organization, the EU, the World Bank Group and other international agencies) assistance for development, in forms of financial and technical support but also, whenever needed, in the shape of humanitarian aid.

The development cooperation policy in Romania is under the authority of the Ministry of Foreign Affairs which includes an autonomous structure with a political planning and an implementing department. A Council for Development Cooperation would have designed to ensure transparency of the funds' spending and of procedures while also enhancing the involvement of local communities. Such a structure is currently not operational, the institutional arrangements that will make the DA policy more effective remaining still open for debate.

ODA budget is the MFA's responsibility, with one exception: the scholarships fund for international students, which is the responsibility of the Ministry of Education.

As a new Member State, Romania should have achieved 0.17% ODA/GNI by 2010 respectively 0.33% by 2015. Actually, in 2011 Romania got only 0.093% thanks to contributions to the ODA Commission's budget and to the European Fund for Development (almost 79.7 million EUR). The second contributor to ODA is the Ministry of Education, with the scholarships allocated to foreign students (almost 14.9 million EUR) and the third is the Ministry of Foreign Affairs through its specific ODA budget and projects.[12]

Non-governmental organizations play a key role in achieving development goals and the Romanian Government is willing to improve the partnership with Romanian NGOs by proposing that part of the National Strategy would be a periodical *Development Cooperation Round Table* with the third sector.

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9 On the ground of the Memorandum for Romanian Government's Strategy for National Policy of International Cooperation for Development 2007 - 2010 and Memorandum for ODA recipient countries for 2011

10 On the ground of the Memorandum for ODA recipient countries for 2012 - 2015

11 Government Act no 703/2006

12 According to the National AidWatch Report elaborated and launched in October 2012 in Romania by the National Platform for NGDOs in Romania, http://www.fondromania.org/pagini/index.php

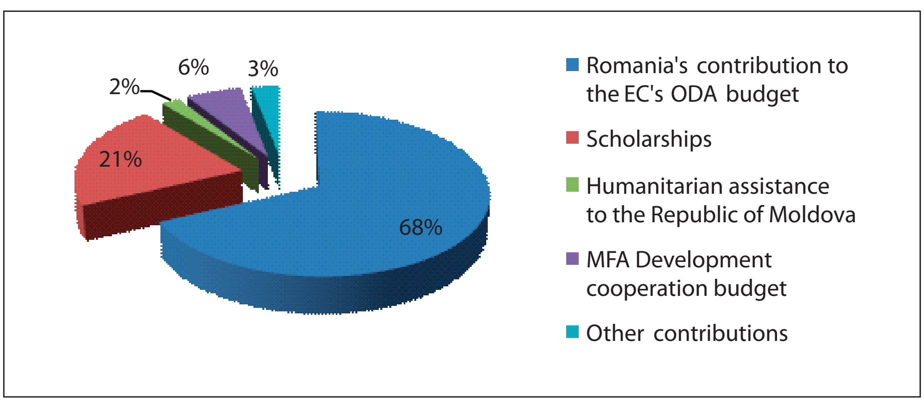
Romania Development Assistance's contributions are significantly larger than the ODA allocations (from Ministry of Foreign Affairs' budget) because of contributions to the EU's development cooperation budget followed by scholarships offered mainly by the Ministry of Education and other funds from other ministries' budget such as the Ministry of Agriculture or the Ministry of Administration and Internal Affairs.[13]

The overall situation is presented below:[14]

Year	Romanian Development Assistance Contributions	ODA allocations from MFA budget
2007	80 million EUR	4,67 million EUR
2008	94 million EUR	1,92 million EUR
2009	99 million EUR	1,83 million EUR
2010	85 million EUR	3,72 million EUR
2011	117 million EUR	2,59 million EUR

In 2007, ODA funds were disbursed through multilateral channels, most of them adding our assistance to various international (mainly UN) - coordinated funds. During 2008, the Romanian MFA started bilateral and multilateral programs, fostering cooperation with our beneficiary countries' institutions. As the Unit of ODA from MFA reported, the distribution of funds for 2007 – 2009 corresponded to several distinctive domains as shown in the next Graphic pointing out that Romania's contribution to the EC's ODA budget was prevalent (according to MFA annual reports available at: http://www.aod.ro/fisiere.html).

Chart 1. Romania's ODA contributions in 2007

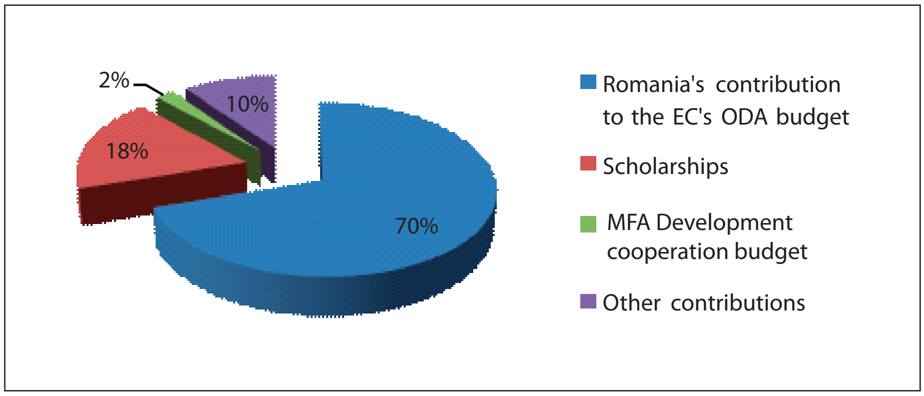


MFA Report 2010: New donors can make a difference. Romanian Aid
http://www.aod.ro/resurse/BROSURA%20(4).pdf

[13] Currently named Ministry for Internal Affairs

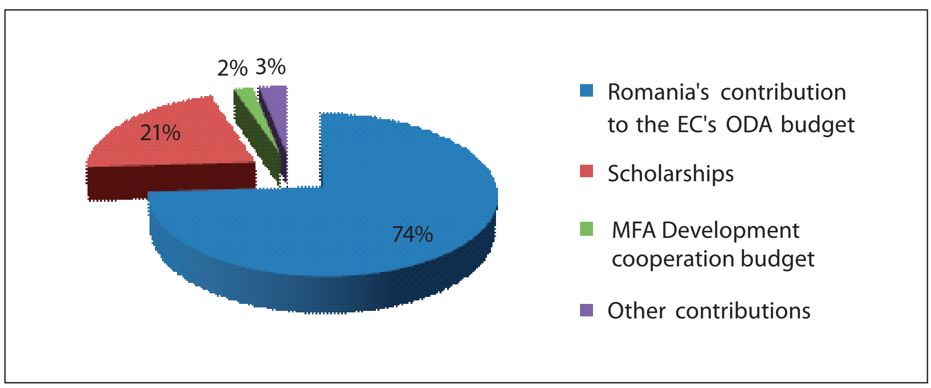
[14] http://www.aod.ro/fisiere.html

Chart 2. Romania's ODA contributions in 2008



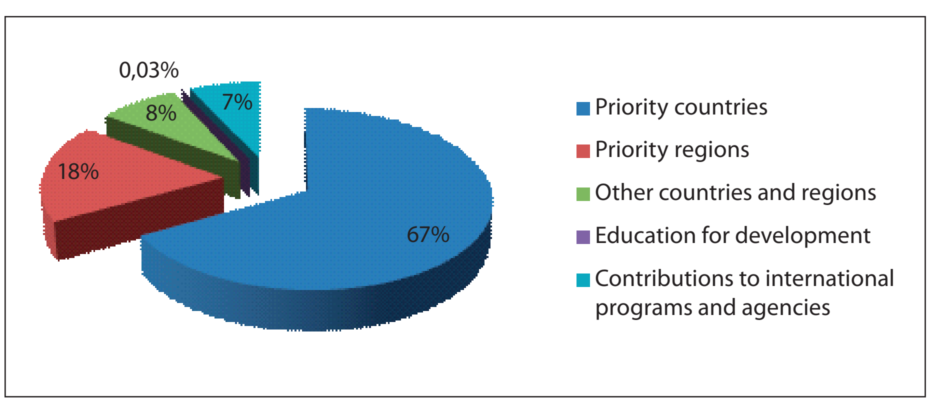
MFA Report 2010: New donors can make a difference. Romanian Aid
http://www.aod.ro/resurse/BROSURA%20(4).pdf

Chart 3. Romania's ODA contributions in 2009



MFA Report 2010: New donors can make a difference. Romanian Aid
http://www.aod.ro/resurse/BROSURA%20(4).pdf

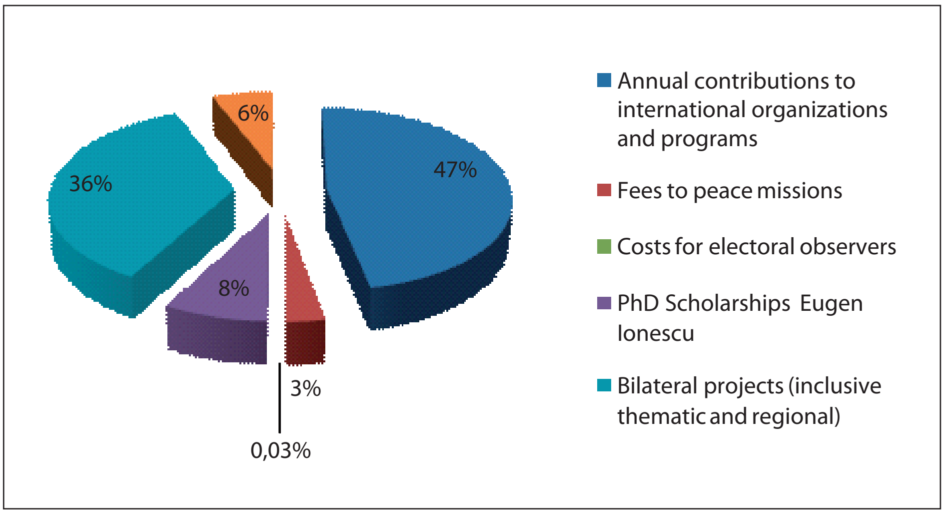
Chart 4. Romanian MFA's ODA contributions in 2010



Annual Report MFA's ODA budget for 2010
http://www.aod.ro/resurse/2011.08.18_oda_raportare_2010.pdf

Just as in 2007 – 2009, in 2011 the annual contribution to international organisations and programs was prevalent within the MFA's ODA budget.

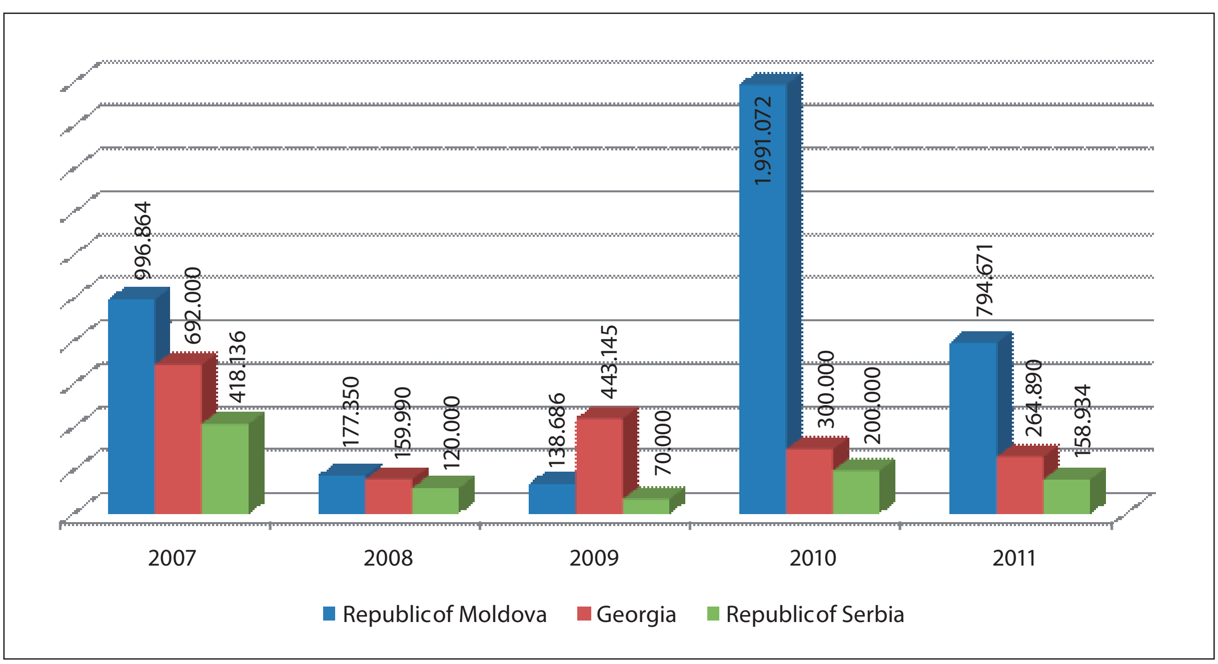
Chart 5. Romanian MFA's ODA contributions in 2011



Annual Report MFA's ODA budget for 2011
http://www.aod.ro/resurse/2012.10.02_raport_national_2011.pdf

Moreover, the distribution of ODA funds per priority countries indicates, especially during the last years, a far more significant contribution to projects implemented in the Republic of Moldova.

Chart 6. Distribution of Romanian MFA's ODA contributions per priority countries (euro)



Annual Reports MFA's ODA budget
http://www.aod.ro/fisiere.html

4. Current state of bilateral trade and trade regimes in place

According to the *Government Strategy for the implementation of national policy on international cooperation for development*, adopted in 2006 by the Ministry of Foreign Affairs, Romania aims at increasing the trade assistance within the development policies, as part of the national strategies for development and effectiveness of aid. The Member States should monitor and evaluate trade assistance and report data towards Doha Database.

Along with its EU membership in 2007, Romania is part of the EU Common Commercial Policy concerning the export trade in general, as well as the regime of import/export of goods.

Romania has strongly supported the negotiations regarding bilateral agreements between Romania and Moldova, and between Romania and Georgia. Also, Romania supports Serbia's efforts to join the World Trade Organization and the European Union.[15]

In what concerns the bilateral component, Romania developed economic, scientific and technical cooperation Agreements over the years with the Republic of Moldova, Georgia and Serbia. In the same context, it is important to underline that negotiations are ongoing with Iraq.[16]

Also, Romania has signed Bilateral Agreements for Investment with Moldova and Georgia.

- *The Republic of Moldova*

In 1994, Romania and Moldova signed the Bilateral Free Trade Agreement which entered into force in 1995. It provides a free trade area between Romania and Moldova with the following three main objectives:

- Promoting the harmonious development of economic relations, the improvement of living and employment standards;
- Providing fair conditions of competition for trade;
- Contributing, by the removal of barriers to trade, to the harmonious development and expansion of world trade.[17]

Also, the agreement points out that no customs' duties on imports or exports or charge having equivalent effect should be introduced in trade between Romania and the Republic of Moldova. No quantitative restrictions on exports should be applied.

In March 2012, several bilateral agreements were signed between Romania and the Republic of Moldova and these actually represent the judicial framework for strategic priorities in both countries. However, still we do not have a general agreement for development cooperation or an Action Plan for ODA funds towards Moldova. The already signed agreements are specific for certain fields and not to the development in its entirety. Also, they do not specifically define the grants' mechanism, the applicable procedures for funding, cooperation with other donors in the same fields of action or the sum allocated by Romanian MFA.[18]

A study issued by Expert Grup and the Romanian Academy Society[19] in 2011 talks about the great potential of economic relations between Romania and the Republic of Moldova which is not fully explored yet. There are some factors which hinder the success of economic relations between these two countries such

15 Interim Agreement on trade and trade related matters, 01 February 2010 available here http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/agreements/#_europe

16 Partnership and Cooperation Agreement, signed on 11 May 2012 available here http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/agreements/#_other-countries

17 http://wits.worldbank.org/GPTAD/PDF/archive/Moldova-Romania.pdf

18 AidWatch National Report 2007 – 2012 elaborated by FOND

19 http://sar.org.ro/wp-content/uploads/2011/08/studiu-final.pdf

as: political tensions, the opaque privatization policy, the low quality of economic governance and the difficulties of ensuring an adequate railway and customs' traffic.

Geographic proximity, common language and historical relations between Romania and Moldova have driven the bilateral trade, which is more important for Moldova due to its smaller economy. In 2009, as the study shows, Romania was the largest trade partner for Moldova (20% exports and 12% imports). For Romania, bilateral trade with Moldova accounted for only 1% of the total trade.

The growth of exports between Romania and Moldova increased after Romania's EU Accession, also due to the Autonomous Trade Preferences granted to Moldova by the European Union.

In April 2009, Republic of Moldova introduced the Visa regime for Romanians and this has been considered by the analysts as affecting the economic relations. More as a coincidence, in 2009 both the export and imports with Moldova significantly decreased in the general context of the economic crisis.

In early 2009, in Romania there were 3236 companies with Moldovan capital (USD 33 million) while in Moldova there were 650 companies with Romanian capital (USD 68 million).

As for the ODA, there is still no Agreement for Development Cooperation between Romania and Moldova. Such agreement would make the funding process predictable, organized and in accordance with the existing priorities. The experts from Moldova strongly support the need for a specialized agency for development cooperation (such as Slovak Aid, Czech Aid, Polish Aid, etc.).[20]

In April 2010, Romania's President Mr. Traian Băsescu promised 100 million EUR in assistance for the Republic of Moldova's development. So far only around 8 million EUR has been spent, in reconstruction after the floods in 2010. Since then, no action plan has been adopted, nor has there been any public call for tenders on a specific project. It is important to mention that the Ministry of Regional Development is responsible for these funds and not the Ministry of Foreign Affairs through its ODA Unit. The Department for Relations with Republic of Moldova is in charge with the relations with the officials of Republic of Moldova.

In the same context, it is worth mentioning that the Romanian Center for European Policies (CRPE) launched in early 2012 the annual report regarding the Romania – Moldova relations[21] that includes a set of recommendations for the current situation's improvement such as:

- Creating a Fund for Development Romania – the Republic of Moldova to set up priorities for Moldova and projects ideas as well as to decide on resource allocation
- To create the Romanian Agency for Development – Romanian Aid.

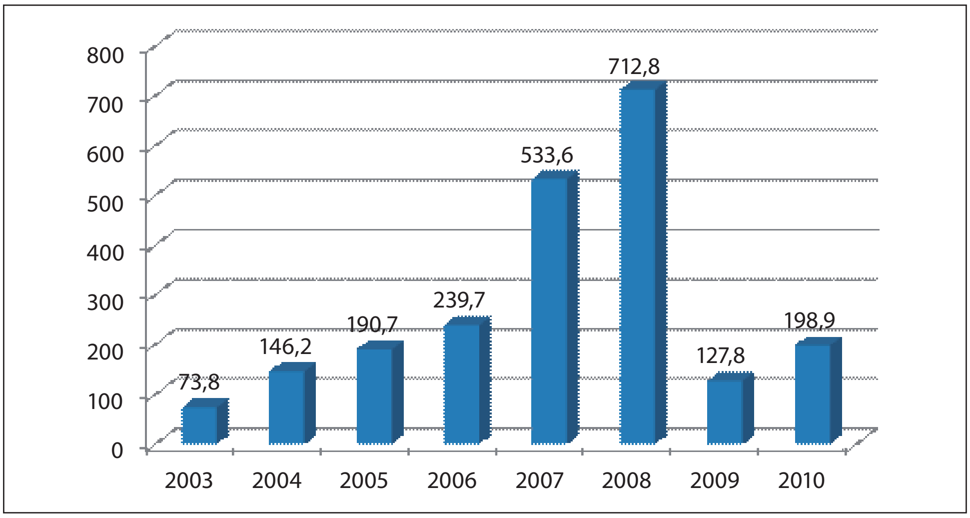
Unfortunately, the civil society's opinions have not benefited from the necessary open debate around potential solutions to improve the current Development Assistance policies implemented by Romania.

As the former study mentioned, the economic relations Romania - Moldova evolve very slowly and not at the level of existing potential. CRPE indicates that there is a deep distrust of Romanian investors regarding business climate and institutional protection of their interests by the Moldovan authorities. Nevertheless, in 2012 Romania is still the main trade partner within the European Union for the Republic of Moldova.

[20] AidWatch National Report 2007 – 2012 elaborated by FOND

[21] http://www.crpe.ro/v2/wp-content/uploads/2012/09/CRPE-Policy-Memo-nr25-De-la-relansarea-relatiei-la-acumularea-restantelor-Raportul-anual-CRPE-privind-relatia-Romania-Republica-Moldova-2011.pdf

Chart 7: Foreign investment in Moldova's economy



CRPE Report available at http://www.crpe.ro/v2/wp-content/uploads/2012/09/CRPE-Policy-Memo-nr25-De-la-relansarea-relatiei-la-acumularea-restantelor-Raportul-anual-CRPE-privind-relatia-Romania-Republica-Moldova-2011.pdf

The percentage of Romanian investment in Moldova grow up from 3,7% in 2007 to 7,6% in 2010. The main investments are made in the field of commerce and services. The best-known companies investing in Moldova coming from the Romanian business environment are the following: Rompetrol, Petrom, BCR Erste Bank, Raiffeisen Leasing, Pro TV, Realitatea TV, Adevarul Holding, Romstal Trade, Orange, European Drinks.[22] According to the Romanian National Institute for Statistics, the highest decrease in turnover was in 2009. The next table shows the evolution of foreign trade between Romania and the Republic of Moldova between 2006 to 2011.

Level of foreign trade Romania – the Republic of Moldova in 2006 – 2011 (thousands EUR)

the Republic of Moldova	2006	2007	2008	2009	2010	2011
Export	340.070	463.072	562.029	373.980	462.796	566.193
Import	112.718	182.739	240.209	130.784	138.480	246.983

According to National Institute of Statistics
https://statistici.insse.ro/shop/index.jsp?page=tempo2&lang=ro&context=62

According to official representatives, the Romanian Ministry of Economy contributes to the development of open, predictable and non-discriminatory trade relations with the Republic of Moldova by developing multilateral trade agreements, by participating in developing trade policy and by technical assistance providing in trade agreements' implementation. Among all of those, developing multilateral trade agreements is considered to be the most effective. In what concerns the terms of trade-related assistance, the Ministry does not directly support building productive capacities, strengthening access to capital markets or promoting approaches that mitigate risks faced by private sector players.

The applied trade regime with Moldova should be considered as a favorable one inasmuch as there are no problems concerning bilateral trade relations with this country such as: tariff measures, non-tariff barriers or customs procedures.

[22] CRPE Report http://www.crpe.ro/v2/wp-content/uploads/2012/09/CRPE-Policy-Memo-nr25-De-la-relansarea-relatiei-la-acumularea-restantelor-Raportul-anual-CRPE-privind-relatia-Romania-Republica-Moldova-2011.pdf

The effects of changes in trade regimes after Romania's EU membership have been positive in the sense that the trade turnover increased during 2007 – 2008 and 2011 – 2012 with the exceptions of 2009 and 2010 when it decreased due to the economic crisis. Others would say that the EU Accession made the Romanian products more expensive.

The specific forms of public-private partnerships initiated on the occasion of aid for trade have had the format of working groups, consultations, joint action plans or information campaigns and promotional products delivered in the Republic of Moldova.

In terms of private support for trade relations, the development of innovative financial mechanisms to mobilize private finance for shared assistance goals is highly reduced.

In relation to ODA funds, the projects implemented within the Republic of Moldova do not only refer to economics and trade relations but mostly to good governance and administrative capacity or humanitarian aid. Access to these resources and transparency in general could be certainly improved, the representative of the Republic of Moldova's Embassy in Romania in an interview with IPP's experts documenting the institutional relations in the context of drafting the current report recently complaining about the lack of transparency that potential Moldovan beneficiaries may face when applying for ODA funds from Romania's MFA.

In 2012, 35% of ODA funds were directed to Moldova but some of the projects were not a priority for Moldova.

When statistically analyzing information about the funded projects, these projects implemented in 2011 within ODA funds have almost nothing in common with trade component of development - except from projects referring to agriculture with the aim of raising the level of commerce within beneficiary countries. This proves that Romania overall policy for international development is not coherently coordinated, a number of opportunities for developing others means of cooperation with Moldova, Serbia or Georgia being insufficiently developed. The projects' objectives are assimilated to institutional and administrative capacity development.

The list of projects that have been financed that was provided by the MFA is the following:[23]

Title/objectives	Implementer	Romania contribution (EUR)
Support for public administration in Republic of Moldova aiming at in-line ministries connected to the European integration issue	UNDP[24] UNFPA[25]	103.259
Technical assistance for the Government of republic of Moldova within the harmonization of national legislation with the communitarian acquis in fields such as energy, transportation, agriculture as well as for supporting the transitional capacity for public administration	UNDP	103.259
Contribution to the elaboration of a national strategy related to research and innovation in Republic of Moldova.	UNDP	98.096
Modernizing the national policy in Republic of Moldova in the field of order and public safety. The project consisted in 6 study visits to the Center for Specialization of Peace Officers in Dambovita County	UNDP	59.890
Development of weapon registers for the Ministry of Internal Affairs in Republic of Moldova. The project contributed at the state integration within Schengen area.	UNDP	86.620

23 http://www.aod.ro/resurse/2012.10.02_raport_national_2011.pdf

24 United Nations Development Programme Romania

25 United Nations Population Fund

Title/objectives	Implementer	Romania contribution (EUR)
Training in International Relations and Diplomacy for 9 diplomats in Republic of Moldova	Romanian Diplomatic Institute	11.661
Project aiming at consolidation trust relations between Chisinau and Tiraspol in fields such as education and civil society.	Council of Europe	82.607
Organizing the second edition of the NGO Forum in Romania and Republic of Moldova.	FOND[26]	48.588
Continuing the project implemented in partnership with Germany aiming at modernizing local public services and regional development.	GTZ and SIDA[27]	202.235

As recommendations to governmental institutions to improve their input in relation to the aid for trade, they should:

- develop regional networks to aid trade on the basis of surveying main structural obstacles and policy difficulties concerning all partner countries;
- develop common strategies to aid trade policy and practice based on financial requirements for its implementation;
- regular monitoring on results.

➢ Republic of Serbia

The Bilateral Free Trade Agreement regarding Romania – Serbia – Montenegro entered into force in 2006; it defines the rules of trade between these countries.[28]

According to the governmental officials answering an official IPP inquiry, Romania does not offer trade-related assistance to the Republic of Serbia. Multilateral trade agreements have already been signed and Romania offers trade facilitations for Serbia. The actual trade regime with Serbia is considered as following a positive trend but, at the same time, the main problems concerning bilateral trade relations arise from customs procedures.

Amongst all non-tariff barriers (such as licenses, quotas, embargo, etc.) the administrative and bureaucratic delays in customs are amongst the most important in what concerns trade relations with Serbia. Moreover, after Romania's EU membership, trade's turnover significantly decreased, the effects of changes in trade regimes being negative as compared with the case of Moldova.

A proper recommendation for stakeholders could be to develop common strategies in aid for trade policy and practice based on financial requirements for its implementation.

At the same time, the Romanian National Institute for Statistics reports a sustainable growth in foreign trade with Serbia during 2007 and 2011. The following figures are representative in this respect:

Level of foreign trade Romania – Serbia during 2006 – 2011 (thousands EUR)

Serbia	2006	2007	2008	2009	2010	2011
Export	NA	311.272	468.106	403.768	510.724	726.517
Import	NA	242.821	245.681	187.075	253.544	285.270

According to National Institute of Statistics
https://statistici.insse.ro/shop/index.jsp?page=tempo2&lang=ro&context=62

26 Romanian NGDO Platform

27 German Organization for Technical Cooperation and Swedish International Development Cooperation Agency

28 http://wits.worldbank.org/gptad/library.aspx

After Moldova, Serbia ranks 18th on the list of top Romanian Exports in 2012, recently made by *Ziare.com*. However, economic relations with Serbia are considered as incipient.

The Romanian – Serbian economic cooperation follows the rules of the Agreement signed by the Government of Romania and Serbia on June 8, 2009. Following this important document, in 2010, 765 companies with Serbian capital were registered in Romania, total investment being of 8.83 million dollars. The Romanian investment in the Serbian economy amounts to 51.5 million dollars.[29]

The list of projects supported through ODA funds is as follows:

Title/objectives	Implementer	Romania contribution (EUR)	Year
Enhancing the rural development networks in Serbia, the 3rd stage of the project financed by Romania in 2007 and 2010. The project objective is to raise life standards and sanity level. In this respect, on the 5th of July 2011 it was signed the agreement between Romania and UNPD Serbia	UNDP Serbia	151.376	2011
The second stage of the project "Strengthening of Rural Capital Networks"	UNDP Serbia	200.000	2010
Contribution to the UNCHR budget for Serbia	NA	70.000	2009
Contribution to the project for inclusion of Roma people within the Serbian society – implementation of the Romanian model in 3 localities.	UNFPA	40.000 USD	2008
Contribution to the project *Adequate houses and living for the refugee in Serbia*	UNHCR[30]	80.000	2008

- Georgia

Like in the case of Serbia, Romania does not offer trade related assistance to Georgia. As institutional contribution to development of open, ruled-based and non-discriminatory trade relations, the multilateral trade agreements, trade facilitations and technical assistance in trade agreement implementation are the main issues of aid for trade. In what concerns Georgia, there are no problems encountered in trade relations like tariff measures or customs procedures except for non-tariff measures such as standards.

After Romania's EU accession, there was an increase in trade turnover with Georgia.

Level of foreign trade Romania – Georgia between 2006 – 2011 (thousands EUR)

Georgia	2006	2007	2008	2009	2010	2011
Export	159.284	104.810	162.660	130.548	151.911	192.546
Import	14.894	383	1.650	7.785	4.961	14.276

According to the National Institute of Statistics https://statistici.insse.ro/shop/index.jsp?page=tempo2&lang=ro&context=62

On top of Romanian Exports in 2012, Georgia ranks 26th,[31] which proves that economic relations are very poorly developed. Also, the projects funded by the ODA funds of Romanian MFA cover a diverse (maybe too diverse) topics, their list being bellow.

29 http://actmedia.eu/daily/romania-serbia-wish-to-strengthen-bilateral-economic-relations/26544

30 UN's Refugee Agency

31 http://www.ziare.com/economie/exporturi/made-in-romania-cine-ne-cumpara-produsele-1212810

Title/objectives	Implementer	Romania contribution (EUR)	Year
Trust consolidation and post/conflict reconstruction in Abkhazia	UNDP	235.023	2011
Organizing the first edition of the European cooperation initiative at the level of civil society from Romania and Georgia	UNDP	29.153	2011
Implementing the project "Support protection and Promotion of Human Rights for Persons with Disabilities and Establishment of Enabling Environment for Provision of Better Services in Georgia"	UNDP Georgia	300.000	2010
Commercial competition evaluation and export potential in Georgia	ITC Geneva	93.145	2009
Infrastructure reconstruction in Georgia	UNHCR Tbilisi	350.000	2009
Georgia participation to Haga Conference	NA	3.150	2008
Modernizing the amphitheatre within the State University „Ivane Javakhishvili" from Tbilisi	NA	6.840	2008
Humanitarian Aid under UNHCR and the World Food Programe	UNHCR World Food Programme	100.000 50.000	2008

5. Other trade related activities in recipient countries

As already mentioned, the aid for development in Romania is mainly devoted to:

- Education for development and public awareness raising;
- Support for national and international organizations working in the field of development and trade;
- Sending experts and volunteers to regions in needs for assistance;
- Development of investment programs or donations.

The Romanian national authorities are involved in different projects for infrastructure construction and maintenance, education and training of specialists or implementation of economic, financial, social or administrative reform. The projects listed below are examples of good practices.

List of projects for development and cooperation implemented by Romanian Ministries in priority countries between 2007 - 2011

Ministry	the Republic of Moldova		Georgia		Republic of Serbia	
	Objectives	Budget EUR	Objectives	Budget EUR	Objectives	Budget EUR
Culture	Development of imitative arts	6.058			Cultural events for Serbian minority	6.823
Health	Cooperation between Ministries, between hospitals or Medicine Universities	NA	No project		No project	
Public Finances	Cooperation within public finances – exchange of expertise	Mutual support	No project		No project	
	Trans-border cooperation for mineral oil and food products	670.000				

Ministry	the Republic of Moldova		Georgia		Republic of Serbia	
	Objectives	**Budget EUR**	**Objectives**	**Budget EUR**	**Objectives**	**Budget EUR**
Education	Scholarships	NA	Collaboration within the educational system	NA	Scholarships	NA
Communication	No project		No project		No project	
Justice	Support for legislation update to the *aquis communautaire* Conferences and other public actions	8531	Conference *Probation System in Georgia*	50	Conferences and other public actions	3126
Transports	No project		No project		No project	
Agriculture	No project		No project		No project	
Environment	No project		No project		No project	
Economy	No project		No project		2 international open fairs, beneficiaries: Association of electronics and communications' industries producers and the Association of furniture producers	126.381
Labor	No project		No project		No project	
Administration	Documentation visits, assistance of civil protection after natural disasters	24.500	No project		Trainings participation and exchange of expertise	19.060
Defense	Staff trainings, human resources management	NA	Military education	NA	Management of defense resources	3.818
Regional Development	Facilitate the trade of agro food products in the Black Sea Basin	101.313	No project		Cross-border cooperation within field like tourism, disadvantaged groups, education, etc	1.519.511[32]
	Raising public awareness on solid municipal waste	122.920				
	Other projects related to public administration, public services, fighting trafficking in human beings, social issues	19.680[33]				

According to the information released by ministries on the ground of law no. 544/2001 regarding access to public information during September – October 2012

The scholarships awarded to the Moldovans' students represent an important component of the ODA support and it can also be considered as an indirect source for trade relations. In 2012, the Romanian Ministry

[32] Under the European Program for Cross-border Cooperation Romania - Serbia

[33] Under the Common Operational Program Romania - Ukraine – Moldova 2007 - 2013

of Economy reported the sum of 11.9 million EUR as scholarships for the Republic of Moldova.[34] The first 10 countries receiving educational support in 2011 are as follows:

Country	Sum (million EUR)[35]
the Republic of Moldova	11,9
Serbia	0.85
Ukraine	0.78
Albania	0.60
Syria	0.29
Jordan	0.28
Macedonia	0.26
Afghanistan	0.22
Turkmenistan	0.19
Lebanon	0.16

MFA Annual Report 2011, http://www.aod.ro/resurse/2012.10.02_raport_national_2011.pdf

The CRPE's analysis on education support towards Moldova that was already mentioned proved that 46% of the Moldovan students in Romanian Universities do not graduate. The situation highlights the lack of administrative performance within the educational system, it does not stimulate learning, the scholarships cover only a little part of the students' needs, the accommodation is insufficient, etc.[36]

At the same time, the Romanian Chamber of Commerce and Industry has concrete experience in trade relations with low development countries and in this respect we could mention projects such as:

- Implementing the strategy for developing the system of Chambers of commerce within the Balkan Region: it proved an ambitious goal but it was not functional due to the State's support which was pretty much invisible and the investments uncertain.
- The Romanian Chamber is member of the Global Network of Chambers of Commerce, an online platform which represents the business component within the Black Sea Economic Cooperation.
- Twinning program Romania - the Republic of Moldova named Go East! For building new communications technologies and online information platforms.

An analysis of *Ziare.com* (a specialized mass-media website)[37] points out that most of the Romanian exports go to Germany (in October 2012, exports of 783 million EUR), Italy (495 million EUR) and France (310 million EUR). Amongst the non-EU countries, the most successful were Turkey (208 million EUR), Russia (102 million EUR) and USA (74 million EUR). Also, in the middle of the rankings we can find countries like South Korea (45 million EUR) and China (33 million EUR).

The Republic of Moldova ranks 17th in terms of exports in October 2012, Serbia 18th, Egypt 22nd, Georgia 26th and Tunisia 44th.

34 http://www.aod.ro/resurse/2012.10.02_raport_national_2011.pdf

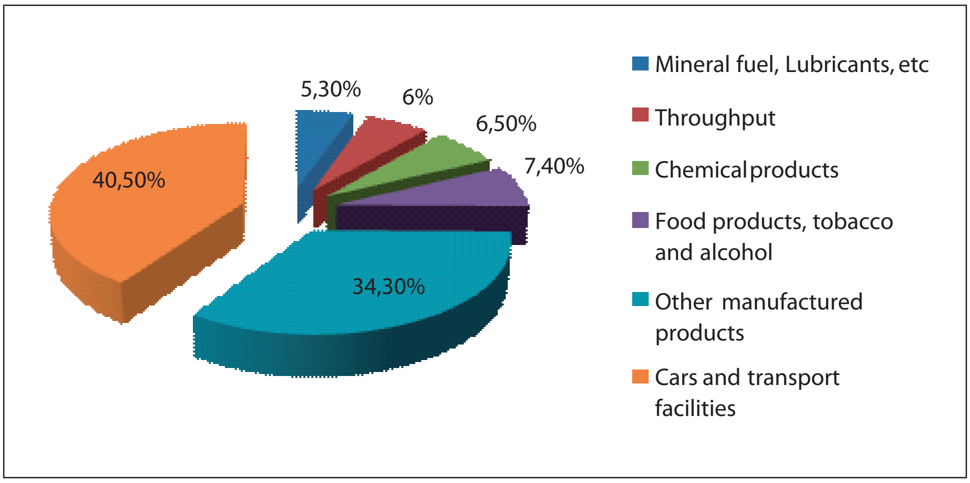
35 The exchange rate of 1 EUR=4,25 RON

36 http://www.crpe.ro/v2/wp-content/uploads/2012/09/CRPE-Policy-Memo-nr25-De-la-relansarea-relatiei-la-acumularea-restantelor-Raportul-anual-CRPE-privind-relatia-Romania-Republica-Moldova-2011.pdf

37 http://www.ziare.com/economie/exporturi/made-in-romania-cine-ne-cumpara-produsele-1212810

According to Ziare.com, the products exported or imported by Romania are categorized as follows:

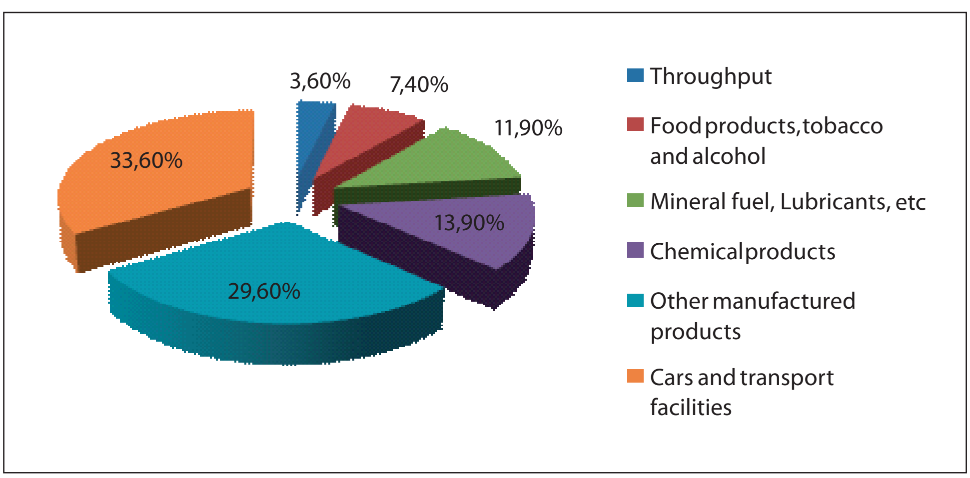
Chart 8. Export structure by type of products in 2012



http://www.ziare.com/economie/exporturi/made-in-romania-cine-ne-cumpara-produsele-1212810

Most of the Romanian exports are related to cars and transport facilities (40.5%) respectively the manufactured products (34.3%). The same situation is presented bellow, in the case of Romania's imports.

Chart 9. Import structure by type of products in 2012



http://www.ziare.com/economie/exporturi/made-in-romania-cine-ne-cumpara-produsele-1212810

For countries additionally supported in 2011 and 2012 by the Romanian ODA budget such as Tunisia and Egypt the level of foreign trade is not as substantial as in the case of the Republic of Moldova. The evolution is presented in the next graphic for Tunisia, and Egypt respectively:

Level of foreign trade Romania – Tunisia during 2006 – 2011 (thousands EUR)

Tunisia	2006	2007	2008	2009	2010	2011
Export	55.559	32.194	58.355	69.665	45.836	45.836
Import	2.802	7.742	31.823	40.922	48.238	67.826

According to National Institute of Statistics

https://statistici.insse.ro/shop/index.jsp?page=tempo2&lang=ro&context=62

Level of foreign trade Romania – Egypt during 2006 – 2011 (thousands EUR)

Egypt	2006	2007	2008	2009	2010	2011
Export	174.185	173.039	185.840	190.131	180.788	275.594
Import	112.189	87.682	64.470	31.569	27.913	31.137

According to National Institute of Statistics
https://statistici.insse.ro/shop/index.jsp?page=tempo2&lang=ro&context=62

ODA funds allocated in 2011 took into consideration these two countries so the objectives followed by the Romanian MFA were as follows:

Title/objectives	Implementer	Romania contribution (EUR)
Seminar concerning capacity consolidation for the staff involved in organizing and monitoring the elections in Tunis and Egypt	NA	25.815
Democratic process consolidation in Egypt	NA	19.538
Supporting the transitional justice and the justice reform in Tunis	NA	19.538

6. Main Bottlenecks and Solutions

The ODA Unit within MFA identified a set of challenges in its activities related to ODA namely:

1. Limited institutional capacity

2. Insufficient and unfavorable legislation for trade relations

3. Low budget

4. Low level of support and interest at national level for aid for development.

Alongside these institutional/systemic inefficiencies, there is also a set of problems deriving from the whole framework and national strategies regarding ODA allocations and especially Aid for Trade. These were identified together with the experts, officials and other relevant players involved in the recent IPP survey as follows:

- The issue of support for development (aid for trade) does not necessarily represent a component of the national economic policy

Even if Romania joined several initiatives launched by other EU Member States in the field of aid for development, there is still a further need for improving coordination and for a comprehensive endeavor aimed at increasing the impact of the trade related assistance. In addition to that, Romania has not yet developed a proper national strategy for cooperation within trade relations and facilitations for the private sector and this should definitely become an important priority.

The main point as regards Aid for Trade in Romania, according to the representatives of the Ministry of Internal Affairs whose opinions were mentioned during the focus group, was related to improving also the involvement in specific missions of reconstruction after conflicts/disasters, such as in the case of Republic of Moldova.

- Romania has not developed a comprehensive initiative to encourage trade relations with foreign companies yet.

Romania has signed a set of agreements and memoranda with various ODA partners with an emphasis on agriculture and financial security. The ODA budget cannot cover specifically the Aid for Trade but some projects inherently brought results connected to trade – for example, agriculture development in Moldova. As for facilitations for private companies, there is still a set of barriers such as visa procedures which hinder commercial relations.

A specific barrier towards the commercial relations named by the private players during the focus groups is the compulsory nature of visa every 30 days for businessmen coming from countries like Egypt or Morocco. One solution would be the business visa, and such suggestions need to be more proactively discussed by the Romanian authorities.

According to the interviewed business community, the legislation seems rather not to be favorable towards business development and to the commercial relations' development in Romania due to bureaucracy and unfriendly/unstable legal specifications. The business sector is looking for benefits and facilitations which so far are not provided by the Romanian State. Most of the commercial relations are based on the intention of being closer to the Schengen Area through Romania.

- The scope of aid for trade has been indirectly accomplished within the ODA projects implemented

Although ODA policy in Romania does not emphasize the commercial component itself but the institutional part of this field, the experts believe that aid for trade has great relevance when talking about development in low-income countries. Selection of Romania's ODA beneficiaries did not necessarily take into consideration the commercial relations and their advantages. The main principle/criteria was the proximity within the Eastern Europe during 2007 – 2011. Since 2012 the situation has significantly changed but, at this moment, an evaluation of these allocations is premature.

- It is necessary to organize and monitor the funds allocated for development within the Ministries' budget in a more systematic manner

The Ministry of Foreign Affairs does not supervise nor it approves the other ministries' projects which shows that coordination should be improved within priority countries (such as in the case of Poland).

There is a clear need to organize the funds that each of the Ministries use for project development even though those are not part of the ODA budget. As we mentioned earlier, separately from the MFA's ODA budget, the Ministries themselves implement projects related to institutional and development support within the ODA countries. In this respect, the proposals coming from the governmental officials were to design either a common ODA fund for all the Ministries or a specific fund for each Ministry which will be entirely used for this purpose and counted as ODA support.

- Creating the Agency for Development

Both the NGOs and governmental experts recognized the need of a specialized agency/entity which should be responsible with the funding criteria, characteristics procedures and priorities, implementation and evaluation of the accomplished results of ODA funds. Also, the ODA investments should be considered as benefits for Romania in its global external affairs related Strategy.

- Defining the specific mechanism of funding within ODA, especially for Aid for Trade related projects

A transparent, well managed scheme for ODA projects funding through MFA budget needs to become a top priority for the Romanian authorities. There are 2 components of the ODA support, namely the projects implemented in Romania with results in ODA countries and the projects directly implemented in ODA countries and the two should be better coordinated. Fortunately, at the Government level such aspects are discussed at this moment so improvements are expected in the next period.

- Romania should define agreements and improve ways of collaboration with Romanians established in low-development countries

The Republic of Moldova is considered a great potential for investment and development within the automobile and pharmaceutical industries. There are also other countries where over the years Romanians have developed great business or work in specific fields of interest for trade that should be used as an opportunity for development by the Romanian authorities.

It is very important for Romania to strengthen these ties stay while also benefiting from their local expertise and knowledge in those countries. This should be also taken into consideration when selecting the ODA countries by the Romanian Government. Also, it will also worth to renewing relations with former foreign students from Romania, who are currently in key positions as stakeholders in countries from Africa or within the Middle East, for example.

- ODA funds and the issue of assistance for development and trade should be better promoted and debated within our country

ODA funds represent a category of new information and therefore a clear opportunity for the private sector that is interested in expanding. Unfortunately, until the current IPP current project and the organized meetings, the business representatives proved not to have the minimum information about the program, the benefits and the opportunities derived from Romanian's status as an ODA implementer. In this respect, the experts and business players agreed upon a set of recommendations for the governmental officials:

1. To increase financial resources for strengthening economic ties by better defining priority area of intervention and by regularly assessing the impact in order to suggest adjustments;

2. To improve administrative capacity at the Governmental level to promptly address the challenges that arise;

3. Better coordination amongst all development players at the central level of the Government to make the use of funds more effective;

4. Better and larger understanding of development aid issues in the Romanian society;

5. Accurate assessments and statistics with regards to ODA and trade relations to be able to follow the trends and use the opportunities in due time.

6. Use existing capacities in all interested sectors not only from the Governmental level but at the non-governmental level that is highly interested in participating to shaping and evaluating relevant Development policies.

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SLOVAK REPUBLIC

Introduction

This study analyzes the Official Development Assistance of the Slovak Republic (hereafter Slovak ODA, or its official name Slovak Aid), its relation to economic (trade and investment) cooperation with partner ODA countries, and the impact of trade regimes with ODA partner countries on the development of relations between Slovakia and ODA partner countries.

The study begins with a review of the strategic and institutional framework of Slovak development policy, including programming documents and related national legislation pertaining to Slovak ODA. It also analyzes the forms of Slovak development assistance, as well as the financing and territorial priorities of Slovak ODA. A special section is devoted to multilateral development assistance, since it has a high impact on MDGs and accounts for 75% of the Slovak ODA budget.

In the second chapter, we analyze trade policy and trade regimes in relation to the development cooperation of the Slovak Republic. Subchapters are devoted to the Common Commercial Policy of the EU, and the Slovak pro-export policy supporting trade with third countries, while the last subchapter is devoted to the involvement and activities of the Slovak Republic in the WTO, and analyzes the Slovak positions within negotiations on international trade liberalization, as well as the involvement of less developed countries in international trade systems .

The third and largest part of the study is devoted to an analysis of the trade and investment relations of Slovakia with ODA partner countries. Each partner country (25 countries in all) is analyzed individually, including an analysis of its potential for the development of mutual trade and investment.

The fourth chapter analyzes the positions of Slovak stakeholders – governmental institutions and businesses involved in Slovak ODA – towards trade regimes with ODA countries.

The final chapter of the study is devoted to conclusions and recommendations.

The Slovak Republic's ODA

After joining the OECD (2000) and the European Union (2004), Slovakia became a part of the donor community. Membership in these organizations has greatly contributed to the formation of a new mechanism of Slovak official development assistance. In light of its positive macroeconomic development, Slovakia graduated from the World Bank's operations in 2008, which means that Slovakia ceased to be a recipient, and became instead a donor, of development assistance. Under the Medium-Term Concept for Official Development Assistance for 2003–08, the Slovak Republic since 2003 has been engaged in bilateral development assistance programs and projects carried out in developing countries, in addition to providing trilateral and multilateral assistance and humanitarian aid (Slovak Aid). The Ministry of Foreign and European Affairs of the Slovak Republic became the national coordinator of Slovak development assistance. In the early years of Slovak development assistance, Slovakia received the strong support of the Canadian Development Agency (CIDA) and the United Nations Development Programme (UNDP).

The launch of the existing institutionalized form of Slovak ODA dates back to 2003. With Resolution no. 432 of 5th June 2003, the Slovak Government approved the "Medium-Term Strategy for Official Development Assistance: 2003–2008," which included the goals, principles and mechanisms of Slovak ODA. Beginning in 2003 the Slovak Ministry of Foreign Affairs took possession of specific budget allocations for ODA.[1] Before the launch of its own comprehensive mechanism for development cooperation in 2003, Slovakia provided its development assistance in the form of voluntary contributions to international organizations, as well as in the form of humanitarian aid. In the past decade of modern Slovakia's ODA, under the logo Slovak Aid, it has implemented more than 400 projects in twenty five countries around the world.

Legislative framework

Slovakia provides development assistance in compliance with Act No. 617/2007 Coll. This Act defines official development assistance as activities and measures designed to promote sustainable development in developing countries, financed from the public funds of the Slovak Republic, and used in accordance with the DAC–OECD rules covering the provision of bilateral, trilateral, and multilateral official development assistance and humanitarian aid.

Other legislation pertaining to Slovak official development assistance and its implementation:

- Act. 545/2010 Z.z. on the granting of subsidies by the Ministry of Foreign Affairs of the Slovak Republic and amending Act. 617/2007 Z. z. on official development assistance and amending Act no. 575/2001 z. on the organization of activities of the government and central government, as amended.
- Decree no. 134/2011 Z.z. of the Ministry of Foreign Affairs of the Slovak Republic from 20th April 2011 on the application requirements of the subsidy elements of contracts for the provision of grants and grant purposes and formalities, including the procedures for the submission of programs and projects within Slovak ODA.
- Decree no. 135/2011 Z.z. of the Ministry of Foreign Affairs of the Slovak Republic from 20th April 2011 on the composition of the Selecting Commission, the Commission's decision, work organization, the procedure of the Commission in the selection of applications and the criteria for selecting of applications for grants within Slovak ODA.

Slovakia's legislative framework is completed by the Budget Law which confirms allocations for ODA (Slovakia operates a rolling three year budget – the current year plus indicative budgets for the next two years), together with the Government's Manifesto 2010–2014, which sets Slovakia's development cooperation in the context of EU membership and commits it to making ODA more transparent and effective. The Manifesto aims to reduce the number of partner countries, improve the management of development cooperation and introduce independent monitoring and project success ratings. The Manifesto also identifies Slovakia's own transformation experience as something it can use to support developing countries.

1 See Medium-Term Strategy for Official Development Assistance: 2003–2008. Bratislava: Ministry of Foreign Affairs of the Slovak Republic, 2003; the text of the respective resolution of the Government of SR: "Uznesenie vlády SR č. 432 z 5. júna 2003 k návrhu strednodobej koncepcie oficiálnej rozvojovej pomoci na roky 2003 až 2008". Bratislava: Vláda SR. Available online: http://www.rokovania.sk/Rokovanie.aspx/GetUznesenia/?idRokovanie=411.

Institutional framework

The Official Development Assistance Act makes the Ministry of Foreign Affairs responsible for leading and coordinating Slovakia's development cooperation. The Ministry is the main focal point for development cooperation strategy and policy leadership within the national system. Other parts of the Slovak Republic's government look to it for direction and guidance. Within the Ministry of Foreign Affairs, the Development Assistance and Humanitarian Aid Department (the Slovak acronym is ORPO) of the Economic Cooperation and ODA Directorate (the Slovak acronym is SHSR) is responsible for development cooperation.

The implementation of bilateral development cooperation policy is mainly the responsibility of the Slovak Agency for International Development Cooperation (Slovak acronym SAMRS) which was established through the Official Development Assistance Act in 2007. The Ministry of Finance plays a key role in ODA allocations and multilateral channels and the Ministry of Education manages ODA funded scholarships which are a significant portion of Slovakia's bilateral aid program each year. A total of 15 ministries and other state authorities are engaged in Slovakia's development cooperation and these are coordinated mainly at a high level through the auspices of the Coordination Committee for Slovak Official Development Assistance, chaired by the Ministry of Foreign Affairs.

It is important to note, however, that only a handful of ministries (Foreign Affairs, Finance, Education, Defence, Agriculture and Interior) are responsible for significant amounts of ODA. The Ministry of Foreign Affairs engages in policy consultations and discussions of strategy with Slovak development Non-governmental Organisations (NGOs) through the Slovak NGO Platform; a memorandum of understanding was signed by the Ministry and the Platform in May 2010.

Conceptual changes were undertaken in the bilateral official development assistance in 2011. They involved a reduction in the geographic and sectoral scope of assistance, the division of development assistance into standard bilateral official development assistance and technical assistance, and the setting up of a specific Ministry program for the latter: the Centre for Experience Transfer in Integration and Reform (CETIR).

Aims of the Official Development Assistance of the Slovak Republic

The main aims of Slovak ODA are:

- reducing poverty and hunger in developing countries,
- supporting the sustainable economic, social and environmental development of developing countries,
- ensuring peace and security in the world, in particular the strengthening of democracy, the rule of law, human rights and good governance in developing countries,
- promoting universal access to education in developing countries,
- raising the level of primary health care in developing countries,
- promoting economic cooperation with developing countries,
- raising the awareness and knowledge of Slovak citizens about the needs of developing countries and Slovak development assistance.

Forms of Slovak development assistance

The implementation of Slovak ODA is realized through:

1. Grant schemes for program countries (via calls for proposals managed by the SAMRS agency, and micro-grants provided by selected Slovak Embassies).

2. Technical assistance – sharing experiences:

- o The grant scheme for the Western Balkans, Eastern Partnership, and the EU's southern neighborhood;
- o The CETIR – for partner countries, managed and implemented directly by the Ministry of Foreign and European Affairs;
- o "Public Finances for Development: Strengthening capacities in the area of public finance in countries of the Western Balkans and Commonwealth of Independent States" – implemented by the Slovak Ministry of Finance;
- o A fund for technical cooperation between the Slovak Republic and the EBRD – realized by the Ministry of Finance for Eastern Europe, Central Asia, Southern and Eastern Mediterranean.

3. Humanitarian aid – in response to the current humanitarian crisis – financial and material assistance.
4. Public awareness, education about development, and capacity-building.
5. Support programs of Slovak development assistance:
    - o Co-financing of projects supported by EU Aid;
    - o Supporting the development activities of Slovak businesses;
    - o Micro-grants;
    - o Posting and supporting volunteers in developing countries;
    - o Trilateral cooperation with traditional donors;
6. Governmental scholarships for students of developing countries.
7. Multilateral cooperation.

Financing of ODA

As a new member of the EU, the Slovak Republic endeavors to reach an ODA/GNI ratio of 0,17% by 2010, and of 0,33% by 2015. The Slovak Republic is far off track for meeting these targets. The commitment made at the highest level to increase development cooperation is positive, but the aid volume target of an ODA/GNI ratio of 0,17% by 2010 has been missed. Reaching the target of 0,33% by 2015 is increasingly problematic. The Ministry of Finance is not optimistic about achieving the 2015 ODA volume target.

Financing of Slovak Aid in 2006–2012 and "fulfillment" of commitments

Year	Volume in mil. EUR	% of ODA on GNI
2006	54,6	0,103
2007	54,8	0,093
2008	65,4	0,102
2009	54,0	0,086
2010	55,8	0,085
2011	61,9	0,091
2012 (forecast)	68,6	0,091

Source: Ministry of Foreign and European Affairs of the Slovak Republic

As a member of the EU, Slovakia channels the bulk of its aid through its obligatory contributions to the EU development budget, representing 93% of multilateral aid. The Slovak Republic's development cooperation effort should be seen in the context of the country's EU membership. As its development cooperation has evolved, particularly after 2007 and the establishment of the Slovak Agency for International Development Cooperation, the scope of Slovakia's cooperation with the EU should have framed the country's development cooperation to a greater extent. This is happening in the case of Slovakia's support to Bosnia and Herzegovina, Montenegro and Ukraine, in the context of the EU's support for the Western Balkans and Eastern Partnership countries.

The Slovak Republic's multilateral aid has grown significantly since 2004 and currently approx. 75 per cent of Slovak ODA is annually delivered through multilateral institutions (as noted above, 93% of this goes to the EU). In comparison, on average, multilateral aid accounts for 27% of the gross ODA of the OECD DAC members. The Ministry of Finance plays the key role in managing multilateral funding through the International Financial Institutions (IFIs), including allocations, policy and relationships. Slovakia actively seeks to influence multilateral organizations through its support, and is also making use of Trust Funds that are tied to Slovak technical assistance, such as the EBRD Technical Cooperation Fund. It is important to note that Slovakia is contributing to over 100 multilateral entities.

The inconsistency in the financing of Slovak ODA in certain years has been caused by debt reliefs. For example, two significant recipients of Slovak ODA during 2007–2009 were non-partner countries: Liberia received USD 12,54 million in debt relief (42% of Slovakia's bilateral ODA) and China received USD 0,51 million (almost 3% of Slovakia's bilateral ODA), mostly in the form of in kind humanitarian assistance.

Although the share of bilateral ODA has decreased from a post-EU membership high of 55% (USD 31 million) in 2005, this is mainly due to a reduction in debt forgiveness which has been a significant feature of Slovakia's aid in recent years. A stock of debt related to developing countries and amounting to 190 million Euros remains, and Slovakia is considering ways that this might be converted to debt relief in the future. The availability of this resource could enable Slovakia to move ahead with its aid volume targets while increasing programmable ODA at a manageable rate, bearing in mind the limited capacity available for managing development cooperation.

With the exception of Liberia's debt relief, the main aid modality for partner countries and other recipients is the small-scale project-based aid delivered by Slovak agencies, including: Slovak NGOs, private firms, government agencies, and local authorities under contract either to the Slovak Agency for International Development Cooperation or to the managers of the Slovak–UNDP Trust Fund. Approximately 50% of Slovakia's bilateral program is delivered by Slovak NGOs each year, with the other half divided between private firms (35%) and other government agencies (15%).

Strategic framework

The strategic framework of Slovak ODA is created through the medium-term strategies (the first of which was for 2003–2008, the second for 2009–2013), and the National programs prepared for each year. The Medium-Term Strategy and yearly National programs are approved at the level of Governmental Decree, which makes them legally binding for all government institutions.

Other documents forming the strategic and legislative framework of Slovak development assistance:

- National Strategy for Global Education for the period 2012–2016, approved on 18th January 2012 by the Slovak Government,
- Directive 92/2009 of the Slovak MFA, which lays down detailed rules for the implementation of the program for micro-grants provided by embassies of the Slovak Republic, approved on 17th September 2009 by the Slovak Ministry of Foreign Affairs,

- Program of the Ministry of Foreign Affairs of the Slovak Republic for sending volunteers to developing countries under Official Development Assistance, approved on 23rd February 2012 by the Slovak Ministry of Foreign Affairs,
- Measures to improve ODA spending, approved on 8th March 2012 by the Slovak Ministry of Foreign Affairs,
- Strategy for engaging businesses in the development cooperation of the Slovak Republic, approved on 4th October 2012 by the Ministry of Foreign and European Affairs of the Slovak Republic,
- Measures to improve the project selection of Slovak development aid, approved on 8th November 2012 by the Ministry of Foreign and European Affairs of the Slovak Republic.

The first medium-term strategy of Slovak ODA for the years 2003–2008 identified "participation of Slovak entities in international development projects" and "expansion of economic cooperation with developing countries" as two of the five goals of Slovak development aid (together with the transfer of Slovak experience and know-how, the participation of Slovak experts in international development activities and mechanisms, and assistance to ethnic Slovaks). The role of the Slovak state was also identified as providing support via its ODA for the involvement of Slovak entities in international development tenders, including the suppliers of goods and services. Enhancement of economic cooperation between donor and recipient countries was declared to be both a positive consequence and the natural follow-up goal of development aid.[2] Since the very beginning of Slovak ODA, its programming documents have included a strong emphasis on aid for trade principles.

The 2003–2008 Medium-Term Strategy defined the following sectoral priorities:

- building of democratic institutions and market environment;
- infrastructure (including social infrastructure);
- rural landscaping, environmental protection, agriculture, food security and utilization of mineral resources.

Specific sectoral priorities were defined for program countries (Montenegro, Serbia):

- development of civic society, social revitalization and regional development;
- local infrastructure reconstruction and development;
- assistance with integration into international bodies and organizations.

In the period 2003–2007, Slovakia provided its ODA to selected countries within two bilateral programs, entitled the Slovak–UNDP Trust Fund (TF) and the Bratislava–Belgrade Fund (BBF). The Slovak–UNDP Trust Fund was the bilateral international development assistance mechanism of the Slovak Republic, established in cooperation with the UNDP office in Bratislava that has been focused on Asian and African countries and the Balkans (referred to as "priority countries" of Slovak ODA). The Bratislava–Belgrade Fund was established in cooperation with the Civic Activities Support Fund (NPOA – Nadácia na podporu občianskych aktivít) and was tailored to meet the development needs of Serbia and Montenegro (Slovakia's only "program country" at that time) during the first years of Slovak Aid.[3]

2 Medium-Term Strategy… op. cit., pp. 8-9.

3 For the Trust Fund activities see – Slovak–UNDP Trust Fund, Summary Report 2003–2008. Initial Period of Slovak Bilateral Development Cooperation (prepared by Zuzana Letková and Sylvie Hanzlová). Dunajská Streda: United Nations Development Programme, Valuer s.r.o., August 2008; for the BBF activities visit the web site of the Citizens' Actions Support Foundation (Nadácia na podporu občianskych aktivít): http://www.npoa.sk/o-fonde-bratislava-belehrad.

The second medium-term strategy of Slovak ODA for the years 2009–2013 was adopted by the Slovak Government on 4th March 2009.[4] This strategy was the starting point for other documents within the five-year term, including the annual national programs, bilateral agreements with developing countries, and development assistance strategies for each priority country. It points out the key priorities for development assistance (strengthening stability and good governance in countries and areas of Slovak priority interest, and contributing to development and thus reducing poverty and hunger in developing countries); and it sets the basic rules and principles of providing Slovak development assistance, of territorial and sectoral focus and all activities connected to the integration of Slovak Aid with EU development policy, as well as of the monitoring and evaluation of the actual provision of development assistance, and the evaluation of its own defining strategy. It contributes to the building of the capacities of entities providing development assistance, and to the raising of public awareness.

The Strategy for 2009–2013 focuses on MDGs and states that: "Combating global poverty is not only a moral commitment, it also helps to build a more stable, peaceful, prosperous and equitable world. Even though the largest share of responsibility for their advancement is borne by developing countries themselves, the advanced countries also have a great deal of responsibility." The Medium-Term Strategy and the National ODA programs are broadly in line with Slovakia's international commitments, particularly to MDGs, the Monterrey Consensus, the Paris Declaration and those connected with the EU, especially the European Consensus on Development (2006) and the European Consensus on Humanitarian Action (2007). These commitments are all clearly referenced in the Medium-Term Strategy.

Territorial priorities of Slovak ODA

Despite its limited financial resources and personnel capacities, Slovakia strives to deliver its development aid efficiently and in a targeted manner. This ambition led to the defining of those priority countries in which the Slovak Republic would be concentrating its development aid.

For the selection of priority countries the following criteria were set:

1. Political and economic criteria
2. Development criteria, including criteria for the allocation of resources on the basis of need and efficiency
3. Logistical and practical criteria
4. The effectiveness and success of the existing Slovak development aid

On the basis of these criteria a provisional list of Slovak development aid priority countries was prepared, and in 2009 the list was approved by the Slovak Government, in the document Midterm Strategy of Official Development Aid for 2009–2013.

Changes in the categories of countries over time will be effected through the National programs, which are approved by the Slovak Government annually. With respect to the foreign policy priorities of the Slovak Republic, the amount of Slovak development aid within those countries making significant progress in the EU accession process will be gradually decreased. In those developing countries which cease to be developing countries according to OECD DAC, the Slovak Republic will stop delivering official development aid.

[4] For the text see Medium-Term Strategy for Official Development Assistance of the Slovak Republic for the years 2009–2013. Bratislava: Ministry of Foreign Affairs of the Slovak Republic, 2009; for the resolution of the Government of SR see "Uznesenie vlády SR č. 170 z 4. marca 2009 k Strednodobej stratégii oficiálnej rozvojovej pomoci SR na roky 2009 – 2013". Bratislava: Vláda SR. Available online: http://www.rokovania.sk/File.aspx/ViewDocumentHtml/Uznesenie-10137?prefixFile=u_.

Before these criteria were established, the first medium-term strategy of Slovak ODA for 2003–2008 had set the following territorial priorities: Afghanistan, Albania, Bosnia and Herzegovina, Kazakhstan, Kenya, Kirghizia, Macedonia, Mongolia, Mozambique, Montenegro, Serbia, Sudan, Tajikistan, and Uzbekistan. Serbia and Montenegro then became a "program country," and the special fund Bratislava–Belgrade was established to finance joint projects.

The Slovak Medium-Term ODA strategy for the years 2009–2013 revised these territorial priorities according to the above mentioned criteria, and set the following program and project countries for Slovak ODA:

3 Program Countries **–** Serbia, Kenya and Afghanistan

16 Project Countries **–** Albania, Bosnia and Herzegovina, Belorussia, Montenegro, Ethiopia, Georgia, Kazakhstan, Kirgizstan, Macedonia (FYR), Moldova, Mongolia, Sudan, Tajikistan, Ukraine, Uzbekistan, and Vietnam.

In 2012, development assistance was aimed primarily at program countries (Afghanistan, South Sudan and Kenya), and at those project countries in which projects based on the sharing of experience were implemented – the Western Balkans (Bosnia and Herzegovina, Montenegro, Macedonia, and Serbia), the EU's Eastern Partnership (Belarus, Moldova and Ukraine), and the Southern neighborhood (Egypt, Tunisia). The fundamental sectoral priorities of Slovak ODA in 2012 were democracy building, infrastructure (healthcare, education) and agriculture development, environmental protection, and climate change prevention. The inter-sectoral priorities focused on gender equality and good public governance.

In the course of 2012, the SAMRS agency launched 11 calls for proposals for grants. 29 projects were selected with a total contracted amount of 3,4 million Euros. Most of the approved resources were for Kenya. None of the projects was supported by the new tool "Engaging of businesses in ODA."

Approved projects in 2012 – Bilateral Aid

Territorial / Sectoral focus	Number of approved projects	Contracted amount in EUR
Kenya	5	1 114 018,82
South Sudan	3	566 082,10
Afghanistan	3	547 774,92
Western Balkans	3	288 336,00
Eastern Partnership	5	430 748,14
South Neighborhood	3	285 633,03
Engaging of businesses in the ODA	0	0
Development education	3	84 489,60
Building capacities of NGOs	1	40 000,00
Co-financing of EU-Aid projects	2	39 971,45
Burma/Myanmar	1	39 000,00
TOTAL:	**29**	**3 436 054,06**

Source: SAMRS agency, 2013

In 2012, projects worth 128,600 Euros were realized as part of the CETIR program, mainly in the form of study trips to Slovakia for state administration representatives in partner countries. As part of the micro-grant scheme, 56 projects were approved and 308,676 Euros was allocated. Most of the micro-grants (18) were awarded by the embassy in Belgrade, followed by the embassy in Nairobi (14), and the embassies in Sarajevo (5) and Bucharest for Moldova (5). Thirteen embassies participated in the program. The Program for Sending Volunteers was also launched and through it the Ministry of Foreign Affairs provided grants worth 79,500 Euros for sending 15 volunteers to countries such as Burkina Faso, Cameroon, Kenya, South Sudan, Lesotho, Cambodia, Kyrgyzstan and Georgia.

For 2013, the territorial and sectoral priorities remained the same as those of 2012. However, new inter-sectoral priorities for 2013 were approved – environmental protection, the fight against climate change, gender equality, good governance, and coherence between migration and development policy.

Territorial and sectoral priorities of Slovak ODA for 2013

Territorial priorities	Sectoral priorities
Program countries: - Afghanistan, Kenya, South Sudan	- Improving the quality of health care; - Improving the quality of education at all levels; - Supporting socio-economic development of rural areas; - Strengthening good governance as a contribution to security sector reform.
Project countries: - Moldova, Ukraine, Belarus, Georgia - Macedonia, Montenegro, Serbia - Tunisia	- Transfer of the Slovak experience of the transition process towards intensification of reforms; - Supporting of the civil society; - Building institutions and capacities for cooperation with the EU and Euro–Atlantic integration support.

Source: National program of Slovak ODA for 2013, MFaEA of the SR

International trade policy, trade regimes and development cooperation of the Slovak Republic

Common Commercial Policy of the EU

The practical implementation of the Common Commercial Policy (CCP) is the responsibility of EU authorities. The EU Council adopts its basic policy decisions according to the manner in which the CCP is being realized. The European Commission is responsible for the practical application of the principles already agreed on within the CCP – representing the EU in the framework of this policy at the international level – and also (under a mandate of the EU Council) for preparation and conclusion at the international level, as well as for new agreements relating to CCP. The main role of the European Parliament is the approval of all international commitments negotiated by the European Commission. The basic tools of the Common Commercial Policy are: common customs tariffs, trade protection instruments, and tools for access to third country markets.

The Slovak Republic, as a member of the European Union – taking into account the existence of the common trade policy of the EU and the exclusive jurisdiction of the European Commission – represents its interests within the Trade Policy Committee of the Council of the European Union. Within this Trade Policy Committee, EU Members present their views in order to build a common view of the whole EU, and subsequently the European Commission presents these interests to the WTO. WTO issues are also discussed at other councils, such as COREPER, FAC and GAC.

In connection with its joining of the European Union, the Slovak Republic was obliged to approximate its contractual-legal basis to its obligations arising from membership in the EU. This obligation resulted from the closed negotiating Chapter 26 (External Relations), and Article 6 of the Act concerning the conditions of accession for candidate countries and their adjustment to those Treaties on which the European Union is established. This harmonization process resulted in the termination of certain existing contractual relations with third countries, and in the revision of bilateral treaties to suit the obligations of EU membership. In the view of the European Commission (EC), any agreement in which an EU member country gives preferential treatment or the status of most-favored nation (MFN) to a third country is considered unacceptable from the perspective of the Common Commercial Policy. Equally unacceptable are agreements of an investment nature or non-preferential agreements that do not comply with the obligations of EU membership. On the other hand, upon joining the EU the Slovak Republic was fully obliged to implement all commercial contracts and agreements concluded by the EU with third countries. Such agreements include trade relations, which can be divided according to region as follows:[5]

Western Balkan countries

The main instruments of EU trade policy with respect to these countries are the Stabilization and Association Agreements (SAA). The EU's relations with the Balkans are at present governed by the Stabilization and Association process. SAAs have been concluded with Croatia, FYROM, Albania, Serbia, Montenegro, and Bosnia–Herzegovina as well. The agreements aim progressively to establish a free-trade area between the EU and the Western Balkan countries. As far as trade is concerned, they focus on liberalizing trade in goods, aligning rules with EU practice, and protecting intellectual property.

European Neighborhood Policy initiative

The Russian Federation is the EU's third biggest trade partner, with Russian supplies of oil and gas making up a large percentage of Russia's exports to Europe. The ongoing cooperation is based on 4 specific policy areas. These "common spaces" cover economic issues & the environment; freedom, security & justice; external security; and research & education, including cultural aspects. The EU has in place a program of financial cooperation that has evolved over time to support the achievement of common objectives. The EU and Russia concluded a Partnership and Cooperation Agreement in 1994. The June 2008 Summit between the EU and the Russian Federation saw the launch of negotiations on a new EU–Russia agreement, which should update and replace the existing Partnership and Cooperation Agreement. The new agreement should provide a comprehensive framework for EU–Russia relations, and include substantive, legally binding commitments in all areas of the partnership, including political dialogue, JLS issues, economic cooperation, research, education, and culture, as well as solid provisions on trade, investment and energy.

The EU is seeking an increasingly close relationship with Ukraine, going beyond mere bilateral cooperation to gradual economic integration and a deepening of political cooperation. Ukraine is a priority partner country within the European Neighborhood Policy (ENP). The Partnership and Cooperation Agreement (PCA) entered into force in 1998 and provides a comprehensive and ambitious framework for cooperation between the EU and Ukraine, in all key areas of reform. In November 2009, the Cooperation Council adopted the EU–Ukraine Association Agenda. This Agenda replaces the former Action Plan, and will prepare for and facilitate the entry into force of a new Association Agreement. This new Agreement will significantly deepen Ukraine's political association and economic integration with the EU. As Ukraine became a member of the World Trade Organization (WTO) in May 2008, negotiations on the establishment of a Deep and Comprehensive Free Trade Area (DCFTA) are an integral part of the Association Agreement. At the 15th EU–Ukraine Summit in December 2011, the leaders of the European Union and Ukraine announced that they had finalized negotiations on an AA aimed at establishing political association and economic integration between the European Union and Ukraine. On March 30, 2012 at the level of Heads of negotiating delegations, the initialization of the Agreement began. For its final signature, it is necessary to fulfill the EU requirement of document translation into all European Union languages. Ratification of the Association Agreement by Ukraine, by the European Parliament and all EU member states will follow.

Central Asian Countries

Since the adoption of "The EU and Central Asia: Strategy for a New Partnership" by the European Council in June 2007, the EU has strengthened its relationship with the countries of Central Asia. The Central Asian countries are: Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan. This strategy

[5] Only those regions where Slovak ODA is present are discussed in this section.

strengthens relations in all areas of cooperation, including: the reinforcement of EU–Central Asia political dialogue via regular meetings between EU and Central Asian Foreign Ministers; the reinforcement of dialogue on human rights; and cooperation in the areas of education, the rule of law, energy and transport, environment and water, common threats and challenges (including border management and combating drug trafficking), and trade and economic relations. The strategy is supported by a significant increase in EU assistance to these countries.

Africa, Caribbean, Pacific (ACP) countries

The "Partnership Agreement between the members of the African, Caribbean and Pacific Group of States and the European Community " was signed on 23 June 2000 in Cotonou, Bénin – hence the name "ACP–EC Partnership Agreement" or "Cotonou Agreement." It was concluded for a twenty year period from March 2000 to February 2020, and entered into force in April 2003. The Cotonou Agreement is a global agreement, introducing important changes and ambitious objectives while preserving the "acquis" of 25 years of ACP–EC cooperation. In comparison to preceding agreements and conventions shaping the EC's development cooperation, the Cotonou Agreement represents further progress in a number of aspects. It is designed to establish a comprehensive partnership, based on three complementary pillars: development cooperation, economic and trade cooperation, and the political dimension. The partnership is centered on the objective of reducing and eventually eradicating poverty, consistent with the objectives of sustainable development and the gradual integration of the ACP countries into the world economy. The Cotonou Agreement is the most comprehensive partnership agreement between developing countries and the EU. Since 2000, it has been the framework for the EU's relations with 79 countries from Africa, the Caribbean and the Pacific (ACP).

Mediterranean countries – EUROMED (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine, Syria, Turkey, Tunisia) + Libya.

In the Barcelona Declaration (1995), the Euro–Mediterranean Partners agreed on the establishment of a Euro–Mediterranean Free Trade Area (EMFTA) by the target date of 2010. This is to be achieved by means of the Euro–Mediterranean Association Agreements negotiated and concluded between the European Union and the Mediterranean Partners, together with free trade agreements between the partners themselves. Turkey signed an Association Agreement in 1995 establishing the definite phase of a customs union with the EU. The European Commission, being in charge of trade and economic cooperation with the South and Eastern Mediterranean, is responsible for preparing, negotiating and implementing Association Agreements. The new generation of Euro–Mediterranean Association Agreements provides for the gradual implementation of bilateral free trade. The Euro–Mediterranean Free-Trade Area foresees free trade in manufactured goods and the progressive liberalization of trade in agricultural products.

Libya and the European Union are not linked by contractual relations. EU sanctions against Libya were lifted in 2004 and, since then, an informal dialogue has started with a view to strengthening EU–Libya relations. Libya has the status of observer in the Euro–Mediterranean Partnership and is also eligible to benefit from assistance under the European Neighborhood Policy instrument. Current EU–Libya cooperation is concentrated on two areas: migrations and HIV-AIDS. Negotiations over the framework agreement/FTA were formally launched on 12-13 November 2008. Libya began discussing an ambitious FTA, including trade in goods and services, the establishment of trade rules, regulatory cooperation, and dispute settlement.

ASEAN countries (Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam, Laos, Burma and Cambodia)

The EU is a longstanding dialogue Partner of ASEAN. Cooperation between the EU and ASEAN is based on a Cooperation Agreement (1980) between the European Community and member countries of ASEAN: Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam. Protocols for the accession of Laos and Cambodia to the Agreement were signed in July 2000, but the EU has indicated that it cannot agree to negotiate an extension of this agreement to Burma/Myanmar as long as the situation as regards democracy and human rights in that country does not improve significantly. Burma/Myanmar, therefore cannot participate in EC–ASEAN cooperation actions.

The European Commission has welcomed the formal adoption by European Member States of negotiating mandates for a new generation of Free Trade Agreements with ASEAN, but also with South Korea and India in April 2007. The European Commission negotiates on behalf of EU Member states. In December 2009, EU Member States agreed that the Commission will pursue FTA negotiations in a bilateral format with some countries of ASEAN. The EU Member States also agreed that the Commission should start bilateral FTA negotiations with Singapore. Vietnam and Thailand have given a political signal that they are ready to engage in a bilateral FTA with the EU. In terms of content these FTAs are competitiveness-driven: comprehensive and ambitious in coverage, aiming at the highest possible degree of trade liberalization including far-reaching liberalization of services and investment. They will also seek stronger protection of intellectual property rights.

Slovak pro-export policy and supporting trade with third countries

Having "loosened" its trade policy jurisdiction when joining the EU, and implemented the EU's Common Commercial Policy, Slovakia has put in place tools for supporting bilateral trade, especially the export of Slovak companies. The key strategic document is the Strategy of the Ministry of Economy of the Slovak Republic: "Export policy of the Slovak Republic for 2007–2013," which was approved by Government Decree no. 561 of 27th June 2007.

This pro-export policy determines the Slovak territorial priorities as follows:

- countries of particular importance (European Economic Area)
- countries with high growth potential exports (Russian Federation and Ukraine, countries of the Balkans, and Southeast Asian countries, particularly China, South Korea and India),
- countries of high export growth potential (developed countries such as USA, Japan, Canada, Australia and other countries of the Commonwealth of Independent States, Gulf countries, North African countries, and South Africa).

It is evident that the least developed countries are not a priority of Slovak export policy. However, most Slovak ODA countries can be found among the priority countries of Slovak export policy.

Export policy is focused on these measures:

1. Economic promotion and presentation as part of the joint promotion and presentation of the Slovak Republic abroad,

2. Removal of tariff and non-tariff barriers to exports,

3. Financing and insuring exports with governmental subsidies to exporters,

4. ***Supporting the development cooperation of the Slovak Republic,***

5. Providing information, advice, assistance and training,

6. Export support of SMEs,

7. Other complementary pro-export measures.

Objectives of the pro-export policy of the Slovak Republic for the years 2007–2013:

- Increasing opportunities for Slovak exports of goods and services:
    - simplifying the terms of international trade,
    - formulation of foreign trade territorial priorities.
- Providing professional and effective support to Slovak exporters:
    - joint promotion of the SR – building a positive image of Slovakia abroad,
    - effective assistance for exporters – information, advice, and assistance for entrepreneurs,
    - institutional framework for pro-export policy holders,
    - other programs with pro-export effect.
- Increasing exports of services (and expansion of services capacity),
- Extension of supply in financial and insurance services,
- Increasing foreign investments, with an emphasis on quality of FDI.

Services and tools of the Slovak export policy:

- providing information and advisory services,
- gathering, analyzing and providing territorial and commodity information,
- organizing business missions to selected territories,
- facilitating contacts with foreign partners,
- marketing and promotional campaigns abroad,
- offering and providing financial products and services (loans and insurance),
- presentation of business opportunities in Slovakia to foreign partners.

The key actor with regard to Slovak export and trade policy is the Ministry of Economy, which represents the interests of the Slovak Republic in the area of trade and pro-export policies abroad. At the level of central government authorities, other forms of export support are dealt with by the Ministry of Agriculture, the Ministry of Transport, Construction, and Regional Development, and the Ministry of Finance. The export and trade policy is strongly supported by the Ministry of Foreign and European Affairs, with its network of embassies in foreign countries.

Other institutions supporting export include:

- Export-Import Bank of the Slovak Republic (EXIMBANKA)
- Slovak Agency for Investment and Trade (SARIO)
- The Slovak Tourist Board (STB)

- Slovak Guarantee and Development Bank (SZRB)
- Slovak Chamber of Commerce and Industry (SCCI)
- National Agency for Development of Small and Medium Enterprises (NADSME)
- Slovak Innovation and Energy Agency (SIEA)
- Federation of Employers' Associations (FEA)
- National Union of Employers (NUE)
- Exhibition centers in Slovakia (Incheba in Bratislava, TMM Trenčín, Nitra Agrokomplex, BB EXPO in Banska Bystrica, 1st Exhibition company in Košice).

The main implementing agency of Slovakia's pro-export policy is the Slovak Investment and Trade Development Agency (SARIO), which is a government-funded allowance organization that works under the supervision of the Slovak Ministry of Economy. Its Section for Foreign Trade provides comprehensive information, advice, assistance and educational services for Slovak exporters and foreign investors. It offers and promotes Slovak products and services, as well as supporting technology and patent transfer, and the creation of joint ventures. It also supports small and medium-sized businesses with an emphasis on enhancing the export and investment activities of Slovak companies abroad, as well as streamlining the coordination activities of institutions involved in pro-export issues, with a focus on fostering a positive image of Slovakia abroad.

Involvement and activities of the Slovak Republic in the WTO

The Slovak Republic became a party to the General Agreement on Tariffs and Trade (GATT) on 1st January 1993, by the Protocol on the accession of the Slovak Republic to GATT. Slovakia being one of the successor states of the former Czechoslovakia, it took over all the rights and obligations of the parties to GATT since 1948, when former Czechoslovakia was an initial member and founder of GATT.

In accordance with the EU's Common Commercial Policy, the Slovak Ministry of Economy presents Slovakia's national position on various issues to the WTO Committee on Trade Policy and the Council of the EU, and at EU coordination meetings in Geneva. The European Commission summarizes the positions of EU Member States, formulates the EU common position, and presents these joint opinions to the WTO. The Slovak Republic has a permanent mission to the United Nations, as well as to other international organizations in Geneva, and Slovak representatives participate in the work of councils and committees, helping to promote the interests of the Slovak Republic. It should be added that the European Trade Strategy falls within the framework of EU actions to fight world poverty, as does the Doha Development Agenda and the initiative in favor of Aid for Trade adopted by the World Trade Organization (WTO).

Slovak positions related to the Doha Development Agenda[6]

The key Slovak position in relation to this Agenda is based on the following principles:

- negotiations should lead to balanced commitments in various areas, as well as in the final overall package;
- the final effect of negotiations should be to help the economic growth of all countries, with an emphasis on the needs of developing and least developed countries;

[6] This subchapter is based on internal documents provided by the Ministry of Economy of the Slovak Republic.

- the results of the new round must be accepted by all WTO member countries (the principle of consensus).

In the area of agriculture, Slovakia has agreed to a significant increase of market access, reductions of subsidies, with a view to the future total elimination of all forms of export subsidies, and substantial reductions in domestic subsidies having a negative impact on the trade of agricultural products. The Slovak Republic supports a balanced outcome of negotiations with respect to all three pillars (market access, domestic support, and export competition).

In the area of access to non-agricultural markets, the aim of the negotiations is to reduce or eliminate tariffs, including the reduction or elimination of tariff peaks (tariffs above 15%), high tariffs, and tariff escalation, as well as non-tariff barriers, particularly concerning those goods that are mainly exported from developing countries. In order for the negotiations to be successful in this respect, it is essential that WTO members agree on three key aspects:

- the formula for reducing tariffs (tariff reductions will be applied to the vast majority of WTO members);

- the flexibility to be applied to the formula for tariff reductions (transitional period, a lower rate of reduction for developing countries);

- a way of dealing with unbound tariff (tariff commitment and the subsequent reduction in these rates).

The Slovak Republic supports negotiations aimed at removing barriers to international trade in non-agricultural products, both tariff and non-tariff. The result of the negotiations should be improved real market access – not only between developed and developing countries, but particularly between the developing countries themselves.

In the area of services, the aim of the negotiations is to eliminate barriers to trade in services, i.e. to the entry and operation of foreign service providers in local markets. The most commonly used limitations and barriers imposed by developing countries are: a maximum limit on foreign equity participation, requiring citizenship for owners and managers of companies, applying market need tests, and the complete closure of the market to foreign competition. The Slovak position prefers a liberalization of the entry and operation of foreign service providers. The liberalization of trade in services among WTO countries should consist not only in a commitment to the current state of liberalization, but also in the creation of new market access. It is necessary to increase the sectoral coverage of commitments and to eliminate horizontal and sectoral limitations (particularly in the area of the establishment of foreign companies or joint-ventures in the market). The liberalization of conditions for entering and doing business within a market stimulates competition within sectors, offers a selection of services to customers, and ultimately reduces the price of services.

Negotiations on trade facilitation should lead to the further speeding up of the customs clearance of goods, including goods in transit. The negotiations are also designed to support technical assistance and support for capacity building in this area, and the effective cooperation between customs and other competent authorities. Slovakia supports the establishment of a multilateral framework of rules for trade facilitation based on the principles of the WTO, in accordance with the harmonization of procedures leading to a simplification of the system, including the simplification of customs legislation and procedures, the transmission and processing of documents, faster processing at the borders, and higher transparency in customs clearance.

Negotiations on the Business Aspects of Intellectual Property Rights (TRIPS) has so far affected only public health, access to medicines, and the research and development of new drugs. Some countries have requested a broadening of negotiations to include also the establishment of a multilateral system of notification and registration of geographical indications for wines and spirits. So far, countries have been unable to reach a consensus on the extension of such a system to other products (such as certain traditional foods, agricultural products, and folk art products). A group of countries (Brazil, India, Bolivia, Colombia, Cuba, Ecuador, Peru, Thailand, and a group of African states) would like to add to the TRIPS Agreement statements on the mandatory disclosure of the country of origin in the case of genetic resources, and the traditional skills of the applicant in patent applications, as well as information about obtaining a permission ("prior informed consent"), and evidence of the fair and equitable distribution of profits. The position of the Slovak Republic is not yet public, because of the sensitivity of the negotiations.

WTO member countries also agreed to launch negotiations on clarifying the rules laid down in the Agreement on Implementation of Article VI of GATT 1994, the Agreement on Subsidies and Countervailing Measures, and on rules related to subsidies within the fisheries sector – aimed at ensuring greater transparency and respect, and preventing the abuse of the rules of non-discrimination, while taking into account the needs of developing countries. The Doha Declaration also imposes a beginning of negotiations on improvements and clarifications of the existing WTO rules and procedures for regional trade agreements, taking into account the development dimension of these agreements. Slovakia supports the clarification of rules on regional trade agreements, as well as anti-dumping and anti-subsidy measures, in order to prevent the circumvention of WTO agreements. In terms of anti-dumping and anti-subsidy measures, a priority for the Slovak Republic is the particular issue of clarifying the rules for an expiry review – which currently enshrine the principle of "lesser duty" (when dumping margins different from actual injury to the domestic industry are recognized) – and introducing the principle of public interest, which would reflect not only the interests of producers, but also those of importers, processors, and consumers, enforcing the measures and preventing their circumvention.

Slovakia supports the adoption of special rules and special treatment for developing countries in all fields, with a view to their deeper integration into the multilateral trading system. The Slovak Republic also agrees with the European Commission on "Aid for Trade" activities, and supports these activities under various programs aimed at the development of trade with and in developing and least developed countries; for example:

- Technical cooperation and capacity building – providing technical assistance, in particular to developing and least developed countries (LDCs), which should be coordinated among international organizations, with a commitment to the stable long-term funding of technical assistance within the WTO.

- LDCs – a primary requirement of these countries is to obtain duty-free and quota-free access to markets of developed countries. Slovakia also welcomes an acceleration of the accession process of LDCs to the WTO, and promotes the fullest extent of their participation in the multilateral trading system.

- Small economies – Slovakia supports a review of how to better involve small and vulnerable economies in the multilateral trading system (without creating additional subgroups among WTO members), a formal definition of small and vulnerable economies, and the identifying and solving of their problems.

- Implementation issues – under the Doha mandate, it is necessary to find suitable solutions to various implementation issues, in which developing countries have problems with their commitments and WTO rules. The relevant areas include the Agreement on Agriculture, the Agreement on the Application of Sanitary and Phytosanitary Measures, the Agreement on Technical Barriers to Trade, the Agreement on Trade-Related Investment Measures, the Agreement on Rules of Origin and so forth.

In the area of trade related to the environment, there are opportunities for elimination of tariff and non-tariff barriers to environmental goods and services. WTO countries are gradually submitting their lists of environmental goods. The problem is the lack of a uniform definition of "environmental goods," resulting in various approaches being taken to this issue. The EU published its list of environmental goods in 2005. The Slovak Ministry of Economy in cooperation with the Ministry of Environment has identified a number of products, two of which were placed on the EU list. Negotiations are continuing in the area of environmental services, where initial proposals are expected. The WTO pays particular attention to the effect of environmental measures, and requirements for environmental labeling (eco-labeling), on market access. The EU is a long-time supporter of eco-labeling in cooperation with many countries (Singapore, Taiwan, India, China, Brazil). However, some developing countries perceive environmental labeling as barrier to market access. To facilitate the adaptation of these countries to the new rules, developed countries (including Slovakia) have committed to providing them with technical assistance, capacity-building assistance, and exchange of experience.

Trade and investment relations of Slovakia with ODA countries

From the perspective of the territorial structure of the Slovak Republic's trade priorities, the top priority is EU27 countries, which in 2012 accounted for 83,8% of Slovakia's total export. The most important trading partners in terms of exports are Germany, the Czech Republic, Poland, Hungary and Austria. In terms of imports, the top five spots are Germany, Russia, the Czech Republic, South Korea and China. It is evident from this that Slovak trade policy is oriented towards EU countries, but that in recent years there has been a growing dependence on import from Asian countries. However, the economic crisis brought with it the need for a diversification of business activities, focused particularly on countries with a high potential for economic growth (Russian Federation, Ukraine, the Balkans, and the countries of Eastern and South-East Asia, particularly China, South Korea and India), and also on other countries such as the advanced economies (USA, Japan, Canada and Australia). Some of those listed are currently countries of Slovak Official Development Assistance.

Unfortunately, trade with less developed countries is not a priority of the Slovak Republic. Some general barriers of doing business (trade and investment) with ODA countries can be identified:

- high import taxes, import restrictions, restrictive control of foreign exchange funds, opaque government regulations, import licenses and legal infrastructure;
- underdeveloped business infrastructure and unpreparedness for investments, including poor market transparency;
- obsolete or non-existing infrastructure (roads, railways, ports, electric and telecommunication networks);
- excessive bureaucracy and corruption;
- a lack of finance and foreign exchange, the problem of transfer of the financial surpluses or profits of companies abroad (poor banking and financial sector);
- high crime, poor security (in some countries threats include terrorism or even civil war);
- and many other obstacles.

When combined with the general characteristics of Slovak businesses – 1) most Slovak businesses are small or medium enterprises or transnational companies owned by foreign investors, and 2) are oriented towards assembly and low added value production (production based on low wages) – the potential for trade and investment with less developed countries is very limited.

An analysis of trade with ODA recipient countries supports such a conclusion. In 2012, the share of ODA countries in the Slovak Republic's total trade turnover was only 2,34%. Without Ukraine – a neighboring country – it was only 1,49%. However, there are positive trends. The trade turnover with ODA countries has tripled over the last nine years.. We can assume that ODA has contributed to the growth of trade with ODA countries, however it is difficult to measure to what extent.

The list of recipient countries of Slovak ODA (excluding countries that received humanitarian aid or debt relief) for 2003–2013 (total 25) is as follows:

Afghanistan, Albania, Cambodia, Cuba, Bosnia and Herzegovina, Belarus, Egypt, Ethiopia, Georgia, Kazakhstan, Kenya, Kyrgyzstan, Macedonia, Moldova, Mongolia, Mozambique, Montenegro, Myanmar (Burma), Serbia, Sudan, Tajikistan, Tunisia, Ukraine, Uzbekistan, Vietnam.

Slovakia's foreign trade (trade turnover) with the ODA recipient countries, 2004 – 2012 (in thousands of Euros)

No.	Country	2004	2005	2006	2007	2008	2009	2010	2011	2012	2004–2012
1	**Ukraine**	566 633	721 317	864 921	1 014 211	1 170 637	542 502	814 306	1 079 776	1 035 445	**7 809 749**
2	**Serbia**	108 419	72 909	156 187	290 587	417 895	391 110	492 571	427 701	452 954	**2 810 333**
3	**Vietnam**	19 490	22 671	33 417	67 648	91 235	107 848	162 256	216 860	483 856	**1 205 280**
4	**Belarus**	72 078	73 385	105 130	128 860	168 137	126 314	130 918	186 247	192 593	**1 183 663**
5	**Bosnia and Herzegovina**	44 929	47 361	49 137	67 477	73 382	54 070	67 120	105 988	107 137	**616 602**
6	**Tunisia**	8 365	13 185	26 975	43 761	66 246	83 215	133 464	120 831	101 387	**597 429**
7	**Egypt**	15 291	33 173	38 528	51 767	61 416	51 243	82 778	72 371	123 098	**529 665**
8	**Kazakhstan**	36 187	33 802	54 964	79 498	62 212	38 112	52 414	74 938	76 432	**508 559**
9	**Macedonia**	10 922	14 537	17 845	22 219	40 003	49 961	67 313	101 642	98 148	**422 591**
10	**Moldova**	17 234	32 588	37 376	35 588	69 812	28 514	28 624	37 055	44 226	**331 016**
11	Albania	3 298	4 770	3 301	2 912	24 821	52 429	18 979	32 643	24 611	**167 765**
12	Afghanistan	139	355	24 272	35 491	29 559	875	20 332	6 922	14 247	**132 191**
13	Cuba	16 452	11 209	7 338	20 169	6 785	8 289	11 722	14 051	6 793	**102 807**
14	Uzbekistan	7 203	9 353	13 193	13 189	15 232	6 597	8 623	10 410	7 785	**91 585**
15	Georgia	5 039	7 646	2 699	5 156	6 871	2 780	7 953	9 497	17 812	**65 453**
16	Cambodia	496	1 406	1 081	2 562	4 986	6 482	9 724	18 145	16 753	**61 635**
17	Montenegro	0	0	2 369	3 504	7 438	7 255	5 723	9 187	23 276	**58 752**
18	Ethiopia	4 072	8 616	6 524	4 387	4 375	4 899	3 778	7 538	8 199	**52 388**
19	Kenya	1 219	2 428	2 652	2 272	3 351	4 819	3 309	4 511	4 891	**29 452**
20	Tajikistan	8 529	1 127	6 108	7 354	2 193	570	1 070	498	535	**27 984**
21	Kirgizstan	1 328	1 068	1 979	4 377	1 963	1 601	1 729	1 991	3 144	**19 180**
22	Sudan	1 794	1 090	2 483	2 732	1 840	1 596	1 842	1 834	1 752	**16 963**
23	Mongolia	640	828	673	633	723	814	1 389	1 319	1 829	**8 847**
24	Mozambique	483	526	843	652	1 097	448	86	306	3 038	**7 479**
25	Burma (Myanmar)	427	218	580	660	828	692	667	514	430	**5 016**
	TOTAL	**950 667**	**1 115 569**	**1 460 574**	**1 907 665**	**2 333 037**	**1 573 035**	**2 128 690**	**2 542 775**	**2 850 371**	**16 862 383**

Source: Authors calculation based on statistics from the Ministry of Economy of the Slovak Republic (annual statistics 2004 – 2012)

Bosnia and Herzegovina (BiH)

Mutual relations and trade between BiH and Slovakia are growing year-by-year. Official relations are also "booming," and several treaties have been signed in recent years.

The key bilateral documents related to trade include:

- Protocol of Cooperation concerning the European Integration between the Ministry of Foreign Affairs of the Slovak Republic and the Ministry of Foreign Affairs of Bosnia and Herzegovina – May 2005;
- Agreement between the Government of the Slovak Republic and the Council of Ministers of Bosnia and Herzegovina on Economic Cooperation – June 2008;
- Agreement between the Slovak Republic and Bosnia and Herzegovina for the Promotion and Reciprocal Protection of Investments – June 2008;
- Agreement between the Slovak Republic and Bosnia and Herzegovina on International Transport of Passengers and Goods by Road – January 2012.

In addition to the agreements signed after 1990, there are still approximately 20 agreements in force from the time of Czechoslovakia and the Federal Republic of Yugoslavia, particularly in the social, medical and cultural fields.

Slovak companies are perceived very positively by local businesses and citizens in BiH, based on the earlier cooperation between Slovakia and the former Yugoslavia. Slovak firms still have a good reputation there, as Slovak goods correspond well to local needs and in many cases are cost-effective. Price is generally an important factor for partners in BiH. The most promising sectors for Slovak entities are: the energy sector, infrastructure projects, construction of industrial parks, food processing, tourism, engineering, and automotive.

Their most important export commodities in 2012 were electrical machinery and equipment (with a 17% share of total exports), aluminum and articles thereof (14%), mineral fuels and mineral oil (8,2%), beech wood and fibrous cellulose (7,1%), leather and harness (7%), vehicles other than railway (6,2%), raw hides and skins (6%), paper and cardboard (5,2%), plastics and articles thereof (4,8%), iron and steel (4,1%), and nuclear reactors, boilers, and machinery (3,2%).

The most important import commodities from BiH to Slovakia were chemical products (with a 29,4% share of total imports), footwear, gaiters and the like (15,2%), iron and steel (13,8%), paper and cardboard (1,7%), vehicles other than railway (7,3%), aluminum and articles thereof (4,5%), copper and copper products (3,9%), and beverages, spirits and vinegar (3,8%).

Slovakia's trade with Bosnia and Herzegovina (in thousands of Euros)

	2009	2010	2011	2012
Import	9 917	15 867	38 764	39 603
Export	44 153	51 253	67 224	67 534
Turnover	54 070	67 120	105 988	107 137
Balance	34 236	35 386	28 460	27 931

Source: Ministry of Economy of the Slovak Republic

Belarus

Belarus is a traditional Slovak trade partner. Even the worsening political relations between the EU and Belarus have not harmed Slovak–Belarusian trade, which has been growing over recent years. Official relations between the countries are framed by several bilateral treaties, of which the most important for trade relations are:

- Agreement between the Government of the Slovak Republic and the Government of the Republic of Belarus on Trade-Economic and Scientific-Technical Cooperation – February 1994;

- Agreement between the Government of the Slovak Republic and the Government of the Republic of Belarus on the Cooperation and Mutual Help in the Custom (Tax) Matters –March 1999;

- Agreement between the Government of the Slovak Republic and the Government of the Republic of Belarus on the Avoidance Double Taxation and Prevention of the Fiscal Evasion with the Respect on the Income Tax and Capital – July 1999;

- Agreement between the Slovak Republic and Belarus for the Promotion and Reciprocal Protection of Investments – August 2005;

- and several sectoral treaties, e.g. in agriculture, tourism, transport, etc.

Business cooperation between the Slovak Republic and Belarus is carried out in the food industry in the form of equipment supplies for the complex preparation and processing of milk and production of milk products for a major dairy plant. Slovak production of cheese for export to Russia takes place in Belarus. In the field of engineering, the Slovak company "Minsk Tractor Factory" cooperates in the assembling of "Belarus" tractors, and supplies tractor engines to "Bobruisk Race Motor Parts and Units." In 2009, Slovakia imported several parts for buses from the company "MAZ." Cooperation with "Belarusian Railways" is mainly in the supply of machinery and technology for the construction and maintenance of railway tracks. In the construction sector, supply of valves and piping systems from Slovakia to Belarus dominates.

A joint Slovak–Belarusian enterprise in Brest produces safes for "Safe Tronics." There are also other joint companies: "BELOMOSS" – construction of buildings, the company "Vitapharma" – production of medicines in Belarus, "SOLI" – cattle raising. Close cooperation has been established between the certification body "Gosstandart" and Slovak certification and technical inspection. Cooperation has also been implemented in health & spa.

The following are areas of further potential cooperation: the supply of building materials (including materials for the thermal insulation of buildings), delivery of meat products, preservation of food and baby food, supplies technology for wastewater treatment and sanitation, waste treatment technologies, supply of natural feed additives for poultry, cooperation in the field of mechanical engineering, electrical engineering, specialized machinery, paper making, the chemical industry, and agriculture. Slovak energy companies have the option of applying for access to the Belarusian market for the supply of equipment for the combined generation of electricity and thermal energy (cogeneration units), fired biomass boilers, and the construction of small-heating systems. In the medical field cooperation is feasible in the field of oncology and the production of medicines.

Slovakia's trade with Belarus (in thousands of Euros)

	2009	2010	2011	2012
Import	63 771	49 692	81 270	80 037
Export	62 543	81 226	104 977	112 556
Turnover	126 314	130 918	186 247	192 593
Balance	-1 228	31 534	23 707	32 519

Source: Ministry of Economy of the Slovak Republic

Egypt

After 1989, joint activities were directed to the restoration of foreign trade relations in the field of economics, which had been excellent in the past. Since 2000, foreign trade turnover between Slovakia and the Arab Republic of Egypt (ARE) has been recorded at 15–20%, year after year. This shows that there is the potential for expansion in their economic cooperation in the area of trade in goods and services, by making use of various forms of active relationships.

After the Slovak Republic's accession to the EU, both sides began to revise their bilateral contractual relations. The current status of contractual documents is as follows:

- Agreement between the Government of the Slovak Republic and the Government of the Arab Republic of Egypt on aviation and air services – signed in June 2012;
- Agreement between the Government of SR and the Government of ARE for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income – signed in Cairo, January 2004;
- Additional Protocol to the Agreement between the Government of the Slovak Republic and ARE on the promotion and reciprocal protection of investments: in December 2010, Slovakia proposed that negotiations be discontinued and an entirely new Agreement be developed in accordance with requirements stemming from the Treaty of Lisbon;
- Memorandum of Understanding between the Ministry of Economy and the Ministry of Trade and Industry of ARE: the memorandum text was agreed by both parties and is expected to be signed during the visit of the Minister of Economy to ARE in 2013.

Slovakia's trade with Egypt (in thousands of Euros)

	2009	2010	2011	2012
Import	21 396	35 465	39 395	39 682
Export	29 847	47 313	32 976	83 416
Turnover	51 243	82 778	72 371	123 098
Balance	8 451	11 848	-6 419	43 734

Source: Ministry of Economy of the Slovak Republic

The most important export commodities which Slovakia placed on the market in ARE in 2012 were nuclear reactors, boilers, machinery, mechanical equipment, and spare parts (28,1% of the total export), iron and steel (26,5%), arms and ammunition, parts thereof and accessories (13,6%), vehicles other than railway (7,8%), electrical machinery and equipment, sound recorders, audio, and TV screens (6,4%), paper, paperboard and articles of paper pulp (5,7%), articles of iron and steel (2,5%), rubber and articles thereof (1,5%), optical, photographic, measuring, and medical equipment (1,1%).

The most important import commodities were electrical machinery and equipment, sound recorders audio, video, and TVs (59,8%), articles of apparel and clothing accessories, knitted (25,1%), vehicles other than rolling stock (6,2%), articles of apparel and clothing accessories, not knitted (1,2%) and edible fruit and nuts (1,7%).

Included among the promising options for Slovak exports and investment to Egypt are:

- transport infrastructure – rail, road, inland waterways;
- energy sector – Egypt has interest in the most advanced technology. Green energy, as well as preparation for the construction of nuclear power plants, has provided a wide range of opportunities for sub-contracting and technical consulting. There is also interest in the maintenance and overhaul of existing plants, control systems, energy recovery units, distribution mains, etc.;
- engineering: automatic and semiautomatic machines with numerical control, plasma cutters, compressors, pumps, industrial boilers, valves, etc.;
- agriculture: Egypt has interest in agricultural machinery, irrigation systems, and new technologies for the food-processing industry;
- environment: technologies for sewage treatment plants and drinking water treatment plants;
- spas and wellness: several companies and also hospitals have interest in this sector of the tourism industry;
- joint R&D projects, especially in the areas of nanotechnology, biotechnology and renewable energy.

Kazakhstan

Slovakia has good and stable relations with Kazakhstan. Officially this is represented by several treaties. With respect to trade and investment, in March 2007 an Agreement was signed between the Slovak Republic and the Republic of Kazakhstan for the Avoidance of double Taxation and the Prevention of fiscal Evasion with respect to Taxes on income and Capital.

Joint trade is growing and the trade balance is in favor of Slovakia. Slovak export to Kazakhstan is rather diversified. The main export commodities include: pharmaceutical products (32,1% of total exports), nuclear reactors, boilers, machinery and mechanical appliances, and parts thereof (15,3%), electrical machinery and equipment, sound recording apparatus, and TVs (10,0%), optical, photographic, measuring, medical tools and equipment (9,3%), printed books, newspapers, pictures, printing products, and typescripts (6,4%), paper, paperboard, and paper pulp (4,9%), wood, wood products, and wood charcoal (4,8%), toys, games and sports equipment (3,0%), rubber and articles thereof (2,9%), iron and steel (2,8%), plastics and articles thereof (2,5%), furniture, bedding, mattresses, pillows, lamps, and neon signs (2,0%).

Imports from Kazakhstan are rather narrow. They include: mineral fuels, mineral oils and products of their distillation, and mineral waxes (49%), zinc and articles thereof (43,7%), other base metals, cement and articles thereof (4,5%), and iron and steel (2,5%).

Slovakia's trade with Kazakhstan (in thousands of Euros)

	2009	2010	2011	2012
Import	6 252	19 416	21 830	14 783
Export	31 860	32 998	53 108	61 649
Turnover	38 112	52 414	74 938	76 432
Balance	25 608	13 582	31 278	46 866

Source: Ministry of Economy of the Slovak Republic

The main potential areas for cooperation are: energy and renewable energy – energy infrastructure (construction/reconstruction of pipelines, construction of storage facilities, thermal power plants, transmission and distribution networks), railroad, automobile roads, tires and conveyor belts, electrical engineering, mechanical engineering, production of construction materials, transfer of new industrial technologies, economic and technical consulting, technologies for monitoring of water quality.

Macedonia

Trade with Macedonia has been booming over the last 10 years and has increased by 1 000% since 2004. Slovakia also has very intensive political relations and contractual basis with Macedonia. As for trade and investment, these 4 key agreements are in place:

- Agreement between the Slovak Republic and the Republic of Macedonia for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital – signed in October 2009,
- Agreement between the Slovak Republic and the Republic of Macedonia on the Promotion and Reciprocal Protection of Investments – June 2009,
- Agreement between the Government of the Slovak Republic and the Government of the Republic of Macedonia on cooperation and mutual assistance in customs matters – July 2007,
- Agreement between the Government of the Slovak Republic and the Government of the Republic of Macedonia on Trade and Economic Cooperation – May 2002.

Slovakia's trade with Macedonia (in thousands of Euros)

	2009	2010	2011	2012
Import	18 435	31 239	52 782	59 962
Export	31 526	36 074	48 860	38 186
Turnover	49 961	67 313	101 642	98 148
Balance	13 091	4 835	-3 922	-21 776

Source: Ministry of Economy of the Slovak Republic

The most important export commodities in 2012 were: telecommunications equipment and other accessories (the share of total exports 31,7%), television sets (14,1%), hot rolled iron and steel strip (12,6%), paper and paperboard, cut to size or shape (7,0%) and cars (3,2%).

The most important import commodities were: electrical apparatus for switching or disconnecting circuit (82,9% share of total imports), garment components of textile material (3,0%), furniture (2,6%), tubes, pipes, tubes, fittings, iron, and steel (2,2%), alcoholic beverages (2,1%), and rolled iron and steel strip (1,4%).

Perspective areas for further cooperation in trade are products for transportation and packing, food products (esp. milk and oil), cutting machines, tools and equipment for manufacturing, telecommunications equipment, machinery and technology for the agro-food industry, technologies for environmental protection (waste water treatment plants, drinking water treatment, waste management, air protection), devices for energy production and distribution, as well as technologies for renewable energy production.

Moldova

Moldova became a priority country for Slovak ODA and since 2009 political and other relations between the countries are "heating up". Trade is also growing, so far in favor of Slovakia. Several bilateral treaties have been signed in recent years, e.g. the Agreement on Development Cooperation between the Government of the Slovak Republic and the Government of the Republic of Moldova, which was signed in May 2010. There are also other valid treaties that support bilateral trade and investment:

- Agreement between the Slovak Republic and the Republic of Moldova for the avoidance of double taxation and prevention of fiscal evasion with respect to taxes on income and on capital – signed in November 2003,
- Agreement between the Slovak Republic and the Republic of Moldova on the Promotion and Reciprocal Protection of Investments – April 2008,
- Agreement between the Government of the Slovak Republic and the Republic of Moldova on the international carriage of passengers and goods – May 2000,
- Agreement between the Government of the Slovak Republic and the Republic of Moldova on Trade and Economic Cooperation – October 2002,
- Agreement between the Government of the Slovak Republic and the Republic of Moldova on cooperation and mutual assistance in customs matters – March 2007,
- Memorandum of Cooperation between the Ministry of Economy of the Slovak Republic and the Ministry of Economy and Trade of the Republic of Moldova – November 2008,
- the Program of cooperation between the Slovak Agency for Investment and Trade Development ("SARIO") and Moldova Organization for Investment and Export Promotion ("Miep") – June 2007.

Slovakia's trade with Moldova (in thousands of Euros)

	2009	2010	2011	2012
Import	9 407	6 435	14 735	9 781
Export	19 107	22 189	22 320	34 445
Turnover	28 514	28 624	37 055	44 226
Balance	9 700	15 754	7 585	24 664

Source: Ministry of Economy of the Slovak Republic

There is significant FDI from Slovak entities into Moldova that is not registered. According to Moldovan statistics, five Slovak companies are active in Moldova with a registered capital of 1 400 USD.

Slovak exports to the Republic of Moldova are dominated by machinery, mechanical and electrical equipment (17,9%), further vehicles, vessels and other transport equipment and parts thereof, including railway and tramway locomotives and train sets (15,9%), plastics and articles thereof (14,7%), metals and articles thereof (13,9%) – although exports of copper and articles thereof has decreased significantly, but on the other hand exports of iron and steel and their products have increased, as have aluminum and aluminum products and other articles of base metal. Textiles and textile products represent 11,6% of Slovak exports to Moldova, in particular special woven fabrics, tufted textile fabrics, impregnated or coated fabrics, carpets, synthetic fibers, and silk. Optical, photographic, measuring and medical equipment has a 4,9% share in total exports, while products of the chemical industry, particularly in pharmaceuticals and fertilizers, have a 3,5% share. Mineral products, especially salt, sulphur, cement, have a 2,7% share, while articles of stone, plaster, cement and ceramics have a share of 1,9%.

Imports from the Republic of Moldova are dominated by footwear (50,0%), vegetable products, particularly oilseeds (18,3%), various industrial products (15,9%), especially furniture, bedding and lamps. Textiles and textile products represent 9,1% of imports from Moldova, especially clothing and accessories. Products of the food industry have a 4,5% share, especially spirits and wine.

Serbia

Serbia is a very important political and economic partner of Slovakia, taking into consideration also the Slovak minority living in Serbia. Serbia was for several years a program country of Slovak ODA, and the special Bratislava–Belgrade Fund was financing many joint projects. Serbia is also a very important trade partner of Slovakia.

The contractual basis is very wide, with some Agreement being signed between the two partners almost every year. Out of the many joint agreements, it is necessary to mention the Agreement on Development Cooperation between the Government of the Slovak Republic and the Government of the Republic of Serbia, signed in December 2007; the Memorandum of Understanding between the Ministry of Foreign Affairs of the Slovak Republic and the Ministry of Foreign Affairs of the Republic of Serbia on Cooperation in the Field of European Integration, signed in June 2010; the Agreement between the Government of the Slovak Republic and the Council of Ministers of Serbia and Montenegro on Economic Cooperation (in the area of trade and investment), signed in October 2005; and finally the Agreement between the Government of the Slovak Republic and the Council of Ministers of Serbia and Montenegro amending the Agreement between the Government of the Slovak Republic and the Federal Government of the Federal Republic of Yugoslavia on the promotion and reciprocal protection of investments, signed in November 2004.

Slovakia ranks among the top 20 countries in relation to the value of foreign direct investment (FDI) in the Republic of Serbia for the period 2000–2012. Slovakia is 18th on the list, with an FDI worth a total amount of 111,9 million USD. The key Slovak investors include the company Aqua Therm Invest, which is building a water-park worth 8,5 million Euros; ZOS Trnava, which privatized railway vehicles and purchased the business Goša in Smeredevskej Palanka, Tatravagonka (which also privatized railway vehicles) and also the business Fraternity in Subotica; Bemaco textile, which built its own manufacturing plant in Valjevo for production of clothing; Energocontrol, which built a heating station; and finally Neografia, which privatized a printing company.

Slovak Businesses can still make use of the opportunity to engage in the privatization of Serbian companies. The Agency for Privatization of the Republic of Serbia is now offering for sale a number of companies from various fields (industry and mining, agriculture and fisheries, forestry, water, construction, transport, trade, tourism, crafts, communal services, financial services, education and culture, health and social protection, public social utilities). Promising areas for investment are:

- energy,
- environment,
- information technology,
- agriculture.

Slovakia's trade with Serbia (in thousands of Euros)

	2009	2010	2011	2012
Import	87 614	124 245	126 477	156 679
Export	303 496	368 326	301 224	296 275
Turnover	391 110	492 571	427 701	452 954
Balance	215 882	244 081	174 747	139 596

Source: Ministry of Economy of the Slovak Republic

Bilateral trade between the Slovak Republic and the Republic of Serbia has had a long, upward trend with high deficits on the Serbian side. In 2009, the global economic crisis caused a temporary decrease in the value of mutual trade, which thus fell below the level of 2008. In 2010, trade between Slovakia and Serbia reached its peak (492,6 million Euros) with a surplus on the Slovak side (244,1 million Euros). In the following years, 2011 and 2012, turnover stagnated; however, the share of exports from Slovakia fell, and imports from Serbia began to rise.

The most important export commodities to Serbia are: telecommunications equipment (35,5% of total exports), televisions (4,7%), boilers to produce steam from water and other substances (4,3%), paper and paperboard (4,1%), coke, semi-coke (including wooden), and retort carbon (3,4%), tubes, pipes, hollow sections, fittings, iron, and steel (3,1%), paper and paperboard, cut to size or shape (2,4%), other plastics in primary forms (1,9%), other machinery and equipment used in certain industries (1,9%), means for distribution of electricity (1,7%), office supplies and stationery (1,8%), tin (1,7%) and passenger cars (1,6%).

The most significant import commodity from Serbia are: the means for distribution of electricity and energy (58,1% share of total imports), rolled iron and steel (5,2%), vegetable fats and oils (4,1%), rolling stock (3,6%), telecommunications equipment and accessories (3,2%), aluminum (3,0%), plastics (2,2%), wood and railway sleepers (1,8%), and parts and accessories of motor vehicles (1,4%).

Potential areas for future cooperation include: energy, transport and environmental infrastructure. For energy projects, opportunities are emerging in the construction of the pipeline, in the reconstruction, modernization and construction of thermal power plants and heating plants, in the reconstruction and upgrading of transmission and distribution mains, in the supply of technological equipment for mining, and the supply of boilers, biomass, solar collectors, and various devices for making use of renewable energy sources. In the area of transport infrastructure, there is the possibility of participating in the construction and reconstruction of roads and railway tracks, and the modernization and renewal of rolling stock – locomotives, wagons, trams and buses. In the area of environmental protection, there is scope for the establishment and construction of landfills, the construction and delivery of technology for sewage treatment plants, and the supply of equipment for recycling.

Along with the gradual development of agricultural production, there is the potential for the supply of agricultural machinery, equipment, and fertilizer, as well as technological equipment for the food industry. This industry is slowly beginning to show the restructuring that took place in recently privatized companies. Some of these companies have introduced new production programs and are investing in new technologies.

Ukraine

Ukraine is a strategic partner of Slovakia and its neighbor. Slovakia used the opportunity to provide ODA to Ukraine as a tool to enhance their bilateral relations, and currently it uses its technical assistance to help Ukraine with reforms and with the EU accession process.

The contractual basis is very wide. After the enlargement of the EU, new member states were forced to amend their contractual-legal and economic basis with Ukraine also. For practical purposes, Slovakia completed this process in February 2007 with the signing of agreements on the promotion and reciprocal protection of investments and combined transport. In May 2008, both countries signed Measures on Slovak–Ukrainian cooperation with respect to the approaching EU standards of that same year, and in October 2010 they signed the Agreement on Cooperation between the Slovak Office of Standards, Metrology and Testing and the State Committee of Ukraine for Technical Regulation and consumer Policy in the Fields of Standardization, Metrology and Conformity Assessment.

Slovak FDI to Ukraine amounted to 63,1 million USD in 2012. Most of this money is concentrated in the chemical and textile (clothing) industries. On the other hand, Slovakia is among the nine countries of the EU into which Ukraine for the entire period still has not invested, although investment from other countries (e.g. Cyprus) may be of Ukrainian origin.

When speaking of trade, the potential of Ukraine has not yet been fully exploited by Slovakia. It is generally known that Ukraine is significant for the Slovak Republic and a strategic partner, especially from the perspective of its base of natural resources. Over 80% of Slovakia's raw material imports come from Ukraine and from CIS member countries. Correction of the negative trade balance is expected to be achieved by the growing export potential of the Slovak Republic.

Ukraine's share in Slovakia's total trade is only 0,85%. When compared to our other neighbors (Austria 4,5%, Hungary 5,5%, Poland 5,9% and Czech Rep. 11,9%), it is evident that there is a huge potential for improving our bilateral trade and investment relations.

Slovakia's trade with Ukraine (in thousands of Euros)

	2009	2010	2011	2012
Import	250 712	445 524	607 811	593 329
Export	291 790	368 782	471 965	442 116
Turnover	542 502	814 306	1 079 776	1 035 445
Balance	41 078	-76 742	-135 846	-151 213

Source: Ministry of Economy of the Slovak Republic

The biggest commodity exports from Slovakia to Ukraine in 2012 were:

- vehicles other than railway, with a 32,4% share of total export
- iron and steel, 12,5%
- nuclear reactors, boilers, machinery, 8,2%

- salt, sulphur, earth and stone, 6,8%
- plastics and polymer materials, 6,6%
- paper and paperboard, 5,4%
- electrical machinery and equipment, 4,3%
- miscellaneous chemical products, 3,6%
- pharmaceutical products 3,3%
- rubber 2,4%

The biggest commodity imports from Ukraine to Slovakia were:

- ores, slag and fuel, with a 50,5% share of total imports
- iron and steel, 10,9%
- mineral fuels, oil and distillation products, 10,8%
- electrical machinery and equipment, 8,0%
- wood and wood products, 4,0%
- nuclear reactors, boilers, machinery, 2,6%
- articles of apparel and clothing accessories, textiles, 2,5%
- fats and oils of animal or vegetable origin, 1,2%
- organic chemical compounds, 1,1%
- plastics and polymer materials, 1,1%

To compare with the year 2011: the main export items in that year were nuclear reactors, boilers, and machinery (13% of total exports), iron and steel (12,3%), vehicles (11,8%), electrical machinery and equipment, and TV screens (11,1%). The main items of import in 2011 were ores (46,4% share of total imports), iron and steel (14,7%), mineral fuels, and mineral oils valued (11,4%).

As already mentioned, the potential for cooperation is huge. Areas of possible joint Slovak–Ukrainian investment and trade cooperation are:

- modernization of production base in Ukraine, introduction of new technologies (energy, mining and raw materials, metallurgy, metal fabrication, heavy engineering, automotive industry, chemical industry, food industry, agriculture, pharmaceuticals, local economy);
- development of transport and telecommunications infrastructure (infrastructure construction and reconstruction);
- construction of environmental infrastructure and the introduction of renewable energy sources, urban management and environmental technologies: wastewater treatment, collection, sorting

and treatment of municipal waste, air purification equipment, and the measurement and monitoring of clean air, water, and soil;

- development of tourism and services;

- wood industry: technology for the production, handling and processing of wood, and technologies for the furniture industry;

- energy: advanced technology for electricity and heat production, processing and distribution of natural gas and coal, energy-efficient technologies, and technologies for the use of alternative energy sources;

- automotive, mechanical engineering: components for car production, reconstruction engineering capabilities, and technology for processing metal, wood, food, vehicles, trailers, agriculture;

- food industry: technology for agricultural production and for the processing of milk, meat, and cereals, beer production, and export quality food (e.g. cheese, wine, meat, confectionery);

- health services (modern medical diagnostics);

- construction: building materials, construction activities for infrastructure construction, and civil engineering;

- optical, photographic, measuring, and surgical equipment: the best-known commodities in Slovakia such as medical equipment – particularly medical, surgical and dental instruments.

Vietnam

The former Czechoslovakia had really outstanding relations with Vietnam. After the political changes in Europe in 1989, bilateral relations with Vietnam were difficult. In recent years, however, Slovakia has again been developing new and intensive relations with Vietnam, resulting in Vietnam being included among the project countries of Slovak ODA in the Medium-Term Strategy for 2009–2013, as well as in two national programs (2009 and 2010). During this period, Slovakia realized two projects in Vietnam, one in health care (developing a project of integrated care for cases of mother to child HIV transmission, in the National Pediatric Hospital in Hanoi), and one in education (innovative economic and entrepreneurship education, as part of Vietnam's development).

At the same time, Slovakia and Vietnam revised their contractual basis, which has now been aligned with the commitments that follow from Slovakia's membership in the EU. After accession to the EU, both sides prepared and signed the following agreements:

- Agreement between the Government of the Slovak Republic and the Government of the Socialist Republic of Vietnam on Economic Cooperation – signed in October 2006,

- Agreement between the Government of the Slovak Republic and the Government of the Socialist Republic of Vietnam on double taxation – October 2008,

- Agreement between the Government of the Slovak Republic and the Government of the Socialist Republic of Vietnam on the mutual promotion and protection of investments –December 2009.

The balance of foreign trade in relation to Vietnam has been negative for a long time, as is clearly the overall trend on the Asian continent. Within the European (including Slovak) market, Asian products are becoming increasingly competitive, mainly because of their cost-effectiveness and increasing quality. The largest import items from Vietnam to Slovakia are shoes, garments, fish, chemicals, coffee, tea, and hides, among others. Vietnam is also gradually increasing their proportion of export of natural rubber, rice and optical instruments. In exports from Slovakia to Vietnam, the current trend is a marked departure from the traditional commodity exchange, in favor of the purchase of technology and know-how, and the establishment of joint ventures and production.

Slovakia's trade with Vietnam (in thousands of Euros)

	2009	2010	2011	2012
Import	98 652	152 650	206 848	470 543
Export	9 196	9 606	10 012	13 313
Turnover	107 848	162 256	216 860	483 856
Balance	-89 456	-143 044	-196 836	-457 230

Source: Ministry of Economy of the Slovak Republic

The main items of Slovak export to Vietnam in 2012 were industrial products (53,4% of total exports), followed by machinery and transport equipment (39,9%), and market products (1,8%). A more detailed view shows the main Slovak export commodities to be: machines for processing rubber and plastics (36,1% of total exports), tanned or crust hides and skins of bovine (18,1%), passenger cars (10,1%), machinery and equipment for agriculture, horticulture, and forestry (5,8%), tanks and other armored fighting vehicles (4,9%), leather further prepared after tanning or crusting (2,9%), parts and accessories of machines (2,8%), mineral or chemical fertilizers (2,2%), polymers of ethylene, in primary forms (1,9%), and machinery and equipment for the industrial preparation or manufacture of food (1,1%).

The main items of Slovak import from Vietnam were machinery and transport equipment (60,4% of total imports), followed by market products (23,8%), industrial products (7,6%), chemicals (6,9%), food and live animals (1,1%), beverages and tobacco (0,1%), and finally raw materials (0,1%). A more detailed view shows the main import commodities to be: footwear with outer soles of rubber, plastics, and leather (18,2% of total imports), parts of footwear (15,4%), tools for automatic data processing machines and units thereof (14,4%), electrical apparatus for line telephony (11,8%), footwear with outer soles and uppers of rubber or plastics (10,2%), printing machinery (6,8%), parts and accessories of machines (2,0%), women's overcoats, car coats, capes, cloaks, and anoraks (1,7%), ladies' suits, ensembles, jackets, blazers, and dresses (1,6%), electric motors and generators (1,3%), and parts and accessories of motor vehicles (1,1%).

Slovakia has recently decided to build an industrial park in Vietnam (Hoa Binh), where planned projects include the construction of power plants, breweries and boilers for thermal power plants – in value terms, almost 400 million USD. If this first project is successful, Slovakia will invest into other such industrial parks.

Other promising sectors for Slovak exporters include:

- technologies and equipment for manufacturing,
- technologies and equipment for defense systems,
- technologies and equipment for power generation,
- waste incinerator for wastewater treatment plants (mainly industrial),
- equipment for the modernization of both deep and surface mines,
- production of building materials,
- telecommunications and information technology,

- engineering equipment (shoe and textile machines, metal cutting and forming machines, and printing machines),
- mini breweries,
- pumps and irrigation systems,
- medical equipment.

Positions of Slovak stakeholders towards trade regimes with ODA countries (analysis based on interviews and questionnaires)

Methodology

The interviews were carried out via questionnaires, with the aim of exploring the perspectives of representatives of relevant Slovak governmental institutions and companies as to trade regimes with ODA countries. The total number of questionnaires distributed to representatives of governmental institutions of Slovakia who are active in the field of Slovak ODA was 15. The total number of questionnaires filled in and returned, which allowed for an assessment of the perspectives of representatives of Slovak governmental agencies on the involvement of the private sector in development aid, was seven.

After researching primary sources of literature, e.g. the reports of the administrative and contracting units of Slovak ODA (Slovak–UNDP Trust Fund, Bratislava–Belgrade Fund, and SAMRS), we identified 35 Slovak private companies that implemented at least one project within Slovak ODA during the period 2004–2011. We contacted each of the companies and received back seven questionnaires. With the aim of investigating the development activities of the Slovak private sector within ODA recipient countries, we identified 61 Slovak private companies having trade relations with and/or business activities within selected Slovak ODA recipient countries. The number of questionnaires filled in and returned was 14.

Results: Governmental institutions and agencies (selection of main findings)

The overall national contribution of Slovakia to development aid was rated by governmental institutions as weak (43% of answers) or average (43%). 43% of the governmental institutions interviewed didn't know how to assess the national legal, regulatory or administrative environment from the point of view of the national development priorities in the area of trade and economic relations with recipient countries, while another 43% rated it as being not favorable enough.

All governmental institutions recommended better coordination among all development actors, in order to improve the effectiveness of Slovak ODA. 43% of them would like also to strengthen and improve the administrative capacity of Slovak ODA. Only 29% of them would like to increase the financial resources allocated for the Slovak Republic's ODA.

Most of the governmental institutions involved in Slovak ODA offer recipient countries the following types of trade related assistance:

- Elimination of the business risks of private companies operating in their markets (57,1%)
- Institutional support for trade (14,3%)
- Promoting investment (14,3%)
- Strengthening access to capital markets (14,3%).

Other types of assistance are not provided (e.g. building their economic and production capacities, assistance in addressing market failures, and so forth).

From the point of view of Slovak governmental institutions, the main barriers to bilateral trade between Slovakia and ODA recipient countries are: non-tariff measures (57,1%), followed by tariff measures (28,6%), and custom procedures (14,3%). None of the institutions saw lack of quality of bilateral and multilateral agreements as a barrier.

Most of the governmental institutions (71,4%) assessed Slovakia's EU accession as having a positive impact on its trade regime and bilateral trade turnover with recipient ODA countries. Another 28,6% answered that this had no impact on the trade regime with ODA partner countries. None of them gave a negative answer, so generally the impact of EU accession was regarded as positive.

Most of the governmental institutions (71,4%) recommended developing regional networks (between New Member States) with the aim of improving Slovakia's performance in the field of aid for trade. Also, 43% of them said they would like to increase the role of regional banks in delivering aid for trade. Only 14,3% were in favor of developing common strategies in aid for trade policy, when the financial requirements both for their implementation and the regular monitoring of results were taken into consideration.

When asked about forms of public–private partnership (PPP) within the field of aid for trade, most of the institutions were in favor of joint grant schemes (43%) and the creation of working groups and task forces (43%). 28,6% were also in favor of the preparation and implementation of joint strategies, as well as joint information campaigns and promotional products. These are the forms of PPP which Slovak government institutions regarded as the most effective.

Results: Companies (selection of main findings)

36% of the private companies interviewed assessed the exiting trade regimes between Slovakia and ODA recipient countries as creating favorable conditions for business. However, the same percentage of companies answered that current trade regimes with ODA countries do not have any impact on business. Also, 21% of the companies said that a trade regime is insufficient to create good conditions for business, and one company replied that business relations depend first and foremost on the availability of a reliable business partner in an ODA country, rather than on a trade regime.

Contrary to the prevailing view of governmental institutions, most of the companies interviewed (57,1%) saw time consuming custom procedures as the main barrier to doing business within Slovak ODA recipient countries. This was followed by non-tariff measures (42,9%). None of the companies complained about tariff measures or about other barriers. This view was confirmed by a more detailed analysis of non-tariff measures and barriers, in which 50% of the companies interviewed considered custom procedures as the main obstacle for doing business within Slovak ODA recipient countries. This was followed by restrictions arising from technical norms and standards (21,4%), licenses (14,3%), and foreign exchange restrictions (14,3%). None of the companies saw problems with quotas, import/export deposits, or other barriers.

Slovak companies doing business in ODA partner countries also recommended these measures to be taken by Slovak governmental institutions:

- Slovakia's diplomatic missions are very helpful in opening doors to local governments, however they are less active when it comes to ongoing assistance or supervising the final implementation of business contracts;

- Slovak governmental agencies should be more active in lobbying for the business interests of Slovak companies;

- Companies would appreciate support from the Slovak government and its agencies especially in the area of advertising their products and services, and in addressing the development needs of ODA countries, including through organizing bilateral contacts and discussions with both the governments and businesses of ODA recipient countries;

- Companies also expect that the Slovak government will assist the countries of the Western Balkans and Eastern Europe in the process of their integration into the EU.

To sum up our assessment of the development activities of Slovak companies in ODA recipient countries, on the basis of the cumulative data of the project questionnaires, our main conclusions are as follows. First, about half of the Slovak companies operating subsidiary companies in ODA recipient countries made an additional investment in the development of the local infrastructure. Second, about half of them contributed to the development of the basic infrastructure of the municipality in which they run their subsidiary (transport infrastructure, water supply, support for local sport teams, hospitals and secondary schools). Third, an overwhelming majority of Slovak companies support local businesses through contracting their services (especially when it comes to transport and storage services, and supply of semi-finished products and raw materials). Fourth, only about one third of Slovak companies active in ODA countries offer full-time job contracts to local personnel, including additional social benefits (e.g. food vouchers, health and pension insurance, paid holidays and maternity leave). And fifth, although none of them has any experience with ODA projects, a majority of them are interested in knowing more about the possibilities of Slovak ODA, or would consider the option of applying for Slovak ODA projects in order to support their business activities within ODA countries. This is an additional argument for Slovak governmental agencies to improve their communication with the private sector in order to motivate its participation in development aid.

The questionnaire answers received from both governmental institutions and private companies are in line with the main findings of the DAC Special Review of the Slovak Republic, on Slovakia's international development cooperation since 2011. The review concludes "that the Slovak Republic has put in place many of the legislative, strategic and institutional building blocks for its development cooperation. Slovakia now has scope to strengthen its development cooperation system so that it can achieve its development objectives more efficiently, effectively and transparently, for the benefit of poor people in its partner countries. Slovakia's development cooperation faces several challenges, but the Review deems that solutions to these are available. In responding to these challenges, Slovakia should focus on:

(i) strengthening the leadership of its development cooperation, particularly the key role played by the Ministry of Foreign Affairs;

(ii) increasing the visibility here in Slovakia of its development cooperation in its entirety; and

(iii) improving the delivery of its Official Development Assistance (ODA)."

In concrete terms, in the area of incorporation of the private sector into ODA, our findings are in line with those of the OECD DAC Review:

- the role of the private sector is being given an increasing emphasis in the context of Slovakia's development cooperation.

- Governmental institutions are mixing commercial and development objectives in a way that is incompatible with DAC standards for the use of development cooperation funds. A clear distinction should be made between activities promoting Slovak trade and investment, and development cooperation projects making use of the ODA budget. Ministries should explore various options for involving the private sector in development cooperation, e.g. through public–private alliances, trade capacity building activities, investment guarantees, and risk insurance schemes.

Conclusions and recommendations

Slovak ODA

- Since 2003, the Slovak Republic has put in place many of the legislative, strategic and institutional building blocks for its "new" system of development cooperation, which especially in legislative and strategic areas is focused on MDGs and helping the least developed countries. However, in its implementation phases, Slovak bilateral ODA is mostly focused on cooperation and assistance to countries of the Western Balkan and to the EU's Eastern Neighbors.
- In terms of financial allocations to ODA, Slovakia is not fulfilling its commitments. The aid volume target – an ODA/GNI ratio of 0,17% by 2010 – has been missed. The commitment to reach 0,33% by 2015 is becoming increasingly problematic. Slovakia's current ratio is 0,091%.
- Most Slovak ODA is allocated to multilateral aid (75%), and Slovakia contributes to many international organizations. Because of problems with the Slovak ODA evaluation system (lack of data and statistics, and lack of systematic evaluation), and because of the wide disbursement of Slovak ODA funds to many multilateral organizations and to many small projects within bilateral ODA – as well as because of the territorial inconsistency of the disbursements of Slovak ODA – it is impossible to measure the impact of Slovak ODA on the fulfillment of the MDGs. We can only assume that most multilateral aid goes to the fulfillment of MDGs, while just small part of bilateral assistance can be counted as directly contributing to this.

Although it has made progress in improving the management and coordination of its development cooperation, Slovakia should:

- focus its assistance on fewer countries, fewer sectors, and in particular, fewer activities;
- improve the delivery of its Official Development Assistance (ODA), and make the conditions for reaching the aims of ODA much more transparent, esp. in the fulfillment of the MDGs;
- demonstrate the results of, and build public support for, its development cooperation by moving towards results-based management and reporting;
- reform its ODA business model, moving away from small stand-alone projects towards programmatic modalities, based on country ownership of development and alignment with country strategies – this reform could herald the beginning of a new kind of relationship with NGOs and the private sector;
- make every effort to honor its ODA volume commitments, while also ensuring that it channels its budget effectively, via setting out an ODA growth path with annual targets that are realistic in the light of anticipated economic growth, development, cooperation capacity, and opportunities (such as the stock of debt that may be granted as debt relief).

Economy (trade & investment) and Slovak ODA

- Since 2003, the concept of economic cooperation has been a permanent part of Slovakia's ODA. Economic cooperation with ODA partner countries is defined in each medium and short-term policy document, as well as in legislation related to ODA. Since 2009, political and economic criteria have also been used to identify partner ODA countries, together with an assessment of developmental needs, logistical and practical criteria, and the track record of Slovak aid within particular countries.
- In joining the EU, Slovakia lost certain powers in regard to active international trade politics, which were replaced by the EU Common Commercial Policy. Slovakia's position (as a small country in the EU) in the decision-making process within CCP, and in the formulation and creation of the common position of the EU, is weak. This may be partly due the low activity of our representatives, but mostly it's due to the inability of a small country with limited expertise and political power to enforce priorities.

- Slovakia strongly supports the further liberalization of international trade and the greater involvement of developing countries in it. It also supports the adoption of special rules and special treatment for developing countries in all areas, with a view to their deeper integration into the multilateral trading system. The Slovak Republic also approves of activities in the area of "Aid for Trade," and supports these activities under various programs aimed at the development of trade with and in developing and least developed countries. Slovakia's key priorities in negotiations at WTO are the reduction and simplification of customs procedures, and the elimination of non-tariff barriers of international trade.
- To support Slovak exporters in the international market, Slovakia has a comprehensive pro-export policy in place. From the standpoint of ODA, however, it is focused on territories other than the territorial priorities of ODA and MDGs. Slovak export policy is focused mainly on the promotion of advanced markets, which dominate Slovak exports (EU, USA etc.). For example, its top priority is EU27 countries, which in 2012 accounted for 83,8% of Slovakia's total export. Some territorial changes are visible due to the economic crisis, as more attention is being paid to emerging markets like China, countries of the Eastern Partnership, Russia and certain countries of Asia, such as Vietnam.
- Unfortunately, trade with less developed countries is not a priority of the Slovak Republic. We can identify some general barriers to doing business (trade and investment) with ODA countries:

    - high import taxes, import restrictions, restrictive control of foreign exchange funds, opaque government regulations, import licenses, and legal infrastructure;
    - underdeveloped business infrastructure and unpreparedness for investments, including poor market transparency;
    - obsolete or non-existing infrastructure (roads, railways, ports, electric and telecommunication networks);
    - excessive bureaucracy and corruption;
    - a lack of finance and foreign exchange, the problem of transfer of the financial surpluses or profits of companies abroad (poor banking and financial sector);
    - high crime, poor security (in some countries threats include terrorism or even civil war);
    - and many other obstacles.

- Another reason for low trade and investment with less developed countries is a nonexistent or out-of-date contractual base. In the case of many ODA countries, the contractual base is in a phase of uncompleted review, while in many partner countries it has not been reviewed since the period of communist Czechoslovakia – i.e., it is de facto unrealizable. The protection of Slovak investment and trade in some countries is therefore very low or nonexistent.
- The interest of Slovak entities in cooperation (trade and investment) with third-world countries is poor: there is little information about opportunities, many problems in accessing markets, and other practical problems. When combined with the general characteristics of Slovak businesses – 1) most Slovak businesses are small or medium enterprises or transnational companies owned by foreign investors, and 2) are oriented towards assembly and low added value production (production based on low wages) – the potential for trade and investment with less developed countries is very limited..
- In 2012, the share of ODA countries in Slovakia's total trade turnover was only 2,34%. Without Ukraine – a neighboring country – it was only 1,49%. However, there are positive trends. Trade turnover with ODA countries has tripled in the last 9 years. We may assume that ODA contributed to the growth of trade with ODA countries, however it is difficult to measure to what extent.
- Shortcomings in the coordination of ODA and economic policy:

    - There is a need for further clarification of the distinction between the pro-export policy of donor countries and their development aid, according to the OECD–DAC standards for the use of ODA budgets. Consequently, the governmental authorities of Slovakia should introduce measures supporting the participation of the Slovak private sector in Slovak

ODA in line with OECD–DAC standards. And finally, any new measures applied within the system of Slovak ODA, and aimed at supporting the participation of the private sector, should not discriminate against other types of implementing organizations.

- Even though there are some positive examples of coordination among actors (e.g. in Slovakia's pro-export policy, Slovak ODA is mentioned as one of the tools for promoting Slovak export), in general such coordination is weak. This is also connected with the absence of data from territories. Only in the past year has it become evident that key actors have begun to coordinate the collection and sharing of data (e.g. asking embassies and consulates for analyses of territories, and of the potential for doing business with partner countries).
- The selection of ODA partner countries has not been systematic and trade relations have played only minimal role. This is changing, and some early positive examples exist:

    - Trade can be a reason for ODA – the case of Vietnam: a huge increase of bilateral trade put Vietnam onto the list of ODA countries;

    - ODA can help when political and economic relations with partner countries are "stagnating." Slovakia has several such cases: e.g. Ukraine during 2009–2010, the period after the "gas crisis;" as well as the ODA provided to Kazakhstan and to Belarus.

- Shortcomings in communication and cooperation between governmental institutions and other ODA stakeholders:

    - Until 2012, Slovak ODA was mainly limited to calls for proposals in bilateral ODA. It is a positive development that ministries have introduced new tools for, and an intensified dialogue with, non-governmental stakeholders. One such example is the creation of the Platform for the economic engagement of businesses in Slovak foreign policy and ODA. Another positive case is the elaboration and approval of the Strategy for the engagement of Slovak Business Entities in the International Development Cooperation of the Slovak Republic. Last but not least is the use of embassies and consulates for the support of Slovak export, trade and investment in partner countries.

- The knowledge of the representatives of governmental agencies – and of other stakeholders operating in the area of Slovak ODA as well (NGOs, private companies, etc.) – about Aid for Trade in development should be improved. The Slovak Ministry of Foreign and European Affairs, in cooperation with the Slovak Ministry of Finance, should consider additional educational and promotional activities, for the staff of all agencies participating in Slovak ODA, including Slovak Embassies in ODA recipient countries. Open public conferences and workshops on the topic should also be considered.
- The Ministry of Foreign and European Affairs of the Slovak Republic, as the central public authority responsible for Slovak ODA, should improve its communication of ODA and Aid for Trade to the Slovak public in general.

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SLOVENIA

Introduction

Presentation of national development assistance policy

Slovenia was ODA recipient until 2004, when it was removed from the *DAC List of ODA Recipients* and became a donor in its own right, guided by the EU's common objectives on development. In 2006, the Parliament adopted the *International Development Cooperation of the Republic of Slovenia Act,* which designates the Ministry of Foreign Affairs (MFA) as the "National Co-ordinator", and foresees preparation of time-bound Resolutions that set out the medium-term priorities for Slovenia's bilateral and multilateral ODA, and guide implementation.

The Act sets out a wide range of objectives for Slovenia's bilateral and multilateral ODA, establishes an Interagency Working Body and an Expert Council, defines the modalities for planning, financing and implementing Slovenia's development co-operation and specifies the entities through which Slovenia is legally able to channel its ODA, as well as the conditions under which these entities must operate. The Act stipulates that performance assessments should be carried out so that attainment of objectives can be monitored.

In 2008, the Parliament adopted the first *Resolution on International Development Co-operation,* which covers the period up to 2015 and sets out the priorities for Slovenia's bilateral and multilateral ODA. The Resolution also sets out the following geographic and thematic priorities and stipulates that 80% of Slovenia's ODA should be channelled in support of a geographic or thematic priority (and half of this should support both a geographic and thematic priority):

- Geographic priorities: i) Western Balkans; ii) Eastern Europe, the Caucasus and Central Asia; and iii) Africa.
- Thematic priorities: i) social services; ii) economic services and infrastructure; and iii) multi-sectoral (including climate change adaptation and good governance).

Slovenia has been moving towards more strategic relationships with its main bilateral ODA partners. The MFA has now entered into multi-annual programmes - which cover the various activities it intends to fund - with Montenegro and the Former Yugoslav Republic of Macedonia (FYROM) in the Western Balkans. Slovenia's humanitarian aid focuses on Afghanistan, the West Bank and Gaza Strip and the Western Balkans.

Following the introduction in 2010 of the Government Action Plan, which consolidates part of the budget for ODA under the responsibility of the MFA, Slovenia is placing greater emphasis on three thematic areas: i) strengthening good governance, the rule of law and social sectors with a particular emphasis on transition assistance and institution building, respect for human rights of women and children, education and scholarships; ii) environmental protection with a focus on sustainable water management; and iii) women's empowerment as a crosscutting theme.

Other legislation also impacts on the nature and implementation of Slovenia's ODA programme:

- The *Public Finance Act* governs Slovenia's public spending, including the ODA managed by the MFA.
- The *Public Procurement Act* governs contracting for supplies, services or works.
- The *Decree on Carrying Out Twinning Projects and Bilateral Technical Assistance* governs the provision of technical co-operation.

The Ministry of Foreign Affairs (MFA) has been designated as "National coordinator" for international development assistance and has been strengthening its role at the centre of Slovenia's ODA programme. The ministry's Directorate for International Development Co-operation and Humanitarian Assistance, established on 11 July 2011, manages a consolidated budget for ODA which is implemented through a Government Action Plan negotiated with other ministries. The Directorate assumed the functions of the former Department for International Development Cooperation and Humanitarian Assistance and is responsible for:

- Policy planning for international development cooperation and humanitarian assistance at the national and international levels.
- Policy implementation and coordination; monitoring of the implementation of development cooperation.
- Planning and implementation of humanitarian assistance.

Slovenia's programme for development co-operation and humanitarian assistance is composed of many separate activities (excluding its support to the EU), which are directed through different sets of organisations and are planned, managed and monitored using different procedures, using different standards and scrutiny.

There are three main sets of implementing partners:

- The implementing agent (Centre for International Co-operation and Development, CICD) receives a large share of the MFA's programmable ODA. CICD mainly co-finances infrastructure projects in priority countries for Slovenia's ODA.
- The four "foundations" or mini-implementing agencies are quasi-governmental organisations:

  i) International Trust Fund for Demining and Mine Victims Assistance (ITF) (founded in 1998)
  ii) Centre for Excellence in Finance (CEF) (2001)
  iii) Centre for European Perspective (2004)
  iv) Centre for eGovernance Development (2008)

- ODA channeled to and through NGOs can only go to NGOs registered (as associations) in Slovenia.

CICD proposes a programme of individual activities to the MFA, rating each one individually. The MFA decides - for the programme countries through a joint committee with partner officials – which activities to shortlist. The MFA provides a two-year contract to CICD to implement (procure) these activities.

The five foundations:

The government, a co-founder of these foundations, supports each differently. In many cases, it presides or is a member of the board, as well as a main funder. Some foundations apply for funding for individual projects while others have their full work programme funded. Most are supported in their administration costs or through provision of free office space.

NGOs: The MFA's main annual call for proposals seeks projects in each of the three priority regions, plus humanitarian assistance and awareness raising. If an NGO wins funding, it implements and then submits receipts for all expenditures, one month before the end of the financial year, in order to be reimbursed. NGOs are expected to co-finance 10% of projects supported. The MFA has also run a call for proposals to match funding to NGOs receiving EU funding.

Current level of ODA

Until the economic down turn in 2009, Slovenia's ODA had been increasing steadily and had been on track to reach an ODA/GNI level of 0.17% by 2010, the target that Slovenia agreed to within the European Union. Between 2009 and 2010 Slovenia's ODA fell by 14% in real terms, from USD 71 million to USD 59 million, 0.13% of GNI. In 2011, Slovenia's ODA rose slightly and amounted to USD 60 million, 0,13% of GNI.

Slovenia's ODA is predominantly multilateral (69% in 2011), of which most is Slovenia's pro-rata share of EU development co-operation. The majority of bilateral ODA went to Western Balkans (68%). Slovenia allocated 69% of the available bilateral development funds to priority areas of development cooperation and humanitarian and post-conflict aid.

Bilateral trade as a part of development assistance

The main objective of this project is to analyze the level of progress of the MDG 8A goal (developing further an open, rule-based, predictable, non-discriminatory trading system) and the trade relations and trade regimes with ODA recipient countries. This will promote and disseminate good practices of the new EU member states concerning trade systems with ODA recipients and the role of private and civil society sectors as development actors. Bilateral trade is a powerful engine for economic growth, poverty reduction and sustainable development; however, improvements to the current global trading system are required both on the demand and supply sides. Removing tariff and non-tariff barriers is not enough; developing countries need help in improving their export capacity as well, so that foreign markets are able to absorb their products and services. One of the indicators used to measure progress towards MDG 8 is the proportion of ODA allocated to building the supply side and productive capacity of the developing countries, including through Aid for Trade. The Aid for Trade initiative aims to help developing countries formulate and implement trade policies and practices, and support developing a wider economic capacity to trade (building trade related infrastructure and productive capacity).

Methodology of the study

The analysis will be done for the period after Slovenia's EU membership (Slovenia joined EU on the 1st May 2004). The research methodology will be based on statistical information, desk research and sociological instruments such as focus groups, individual interviews, and questionnaires.

The countries to be subject of the analysis were defined as following – at first they were ranked according to the value of Slovenian exports in 2011 and then among the top 30 countries 12 were identified as relevant for the analysis. The selection was further narrowed considering the geographic priorities, the presence of Slovenian NGOs, the presence of Slovenian embassies, the number of Slovenian exporting companies, and the DAC List of ODA recipients (see Appendix, Table 1). The countries that were selected are the countries that support Slovenia's geographic priority, namely the countries of the Western Balkans – Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro, Serbia, and four additional countries from the selection that are important for Slovenia's economy as well, that is Moldova, Turkey, Ukraine and Kazakhstan.

The research methodology for each of the ten countries will include:

- a review of the legal background for the development of bilateral economic relations (EU Agreement concerning trade and trade related matters as well as bilateral agreements concerning trade and economic relations);
- development of bilateral trade for the period after Slovenia's EU accession (for the period from 2005 to 2011, except in the cases of Kosovo, Montenegro and Serbia, where analysis will be done from 2006 onwards, since there is no available data from Statistical Office of the Republic of Slovenia for the full year 2005, the reason being the breakup of Serbia and Montenegro);
- bilateral trade, the value of exports and imports, will be analysed with basic growth indicators (difference, fixed based index, chain index, growth coefficient, growth rate, and average growth rate);
- the structure of exports and imports will be analysed on the basis of the 4-digit code of the Combined Nomenclature and on the basis of Standard International Trade Classification – SITC;
- an analysis of how changes in trade regimes impact trade turnover and structure;
- an analysis of other forms of economic cooperation, that in turn facilitate trade, such as direct investments.

The research methodology will also include focus group discussions, questionnaires, and interviews. The survey respondents included:

- representatives of line ministries/governmental agencies dealing with aid for trade and development cooperation (Ministry of Foreign Affairs, Ministry of Finance, Ministry of Economy or relevant, embassies, trade representatives and commercial attaches in recipient countries);
- international trade experts of the Ministry of Economy (or relevant), in charge of trade relations with recipient countries;

The research methodology also included focus group discussions, questionnaires, and interviews.

Documents to be used

The analysis was done on the basis of:

- National documents on aid for development and aid for trade, mentioned in the beginning of this chapter;
- Documents referring to trade relations with recipient countries (bilateral trade agreements, reviews of applied trade regimes and changes in trade regimes, other legal acts on bilateral economic relations);
- Statistical information for trade turnover, trade structure, trade balance, and partners (Statistical Office of the Republic of Slovenia);
- Other forms of economic cooperation, such as direct investments (Bank of Slovenia), and the impact of applied trade regimes on them;
- Results from focus groups discussions with representatives of government administration (responsible ministries and agencies), private sector representatives developing trade and investments in recipient countries.

1. CURRENT STATE OF BILATERAL TRADE AND APPLIED TRADE REGIMES

1.1. Albania

1.1.1. Bilateral Agreements

Albania and EU signed *Stabilisation and Association Agreement (SAA)* in 2006 and it entered into force in 2009. In 2000, the EU granted *autonomous trade preferences* to all the Western Balkans. These preferences were renewed in 2005 and in 2011 until 2015. They allow nearly all exports to enter the EU without customs duties or limits on quantities (only wine, baby beef and certain fisheries products enter the EU under preferential tariff quotas). The most important *bilateral agreements* fostering bilateral economic cooperation with Albania are:

- Agreement on Economic Cooperation (1992);
- Agreement for the Promotion and Protection of Investment (2000);
- Agreement Regarding Mutual Assistance in Customs Matters (2003);
- Agreement for Scientific and Technological Cooperation (2006);
- Memorandum on Cooperation between the Ministry of the Economy of the Republic of Slovenia and the Ministry of Economy, Trade and Energy of the Republic of Albania (2007);
- Agreement on Development Cooperation (2008);
- Agreement for the Avoidance of Double Taxation (2009);
- Agreement on International Road Transport of Passengers and Goods (2009).

1.1.2. Bilateral Trade

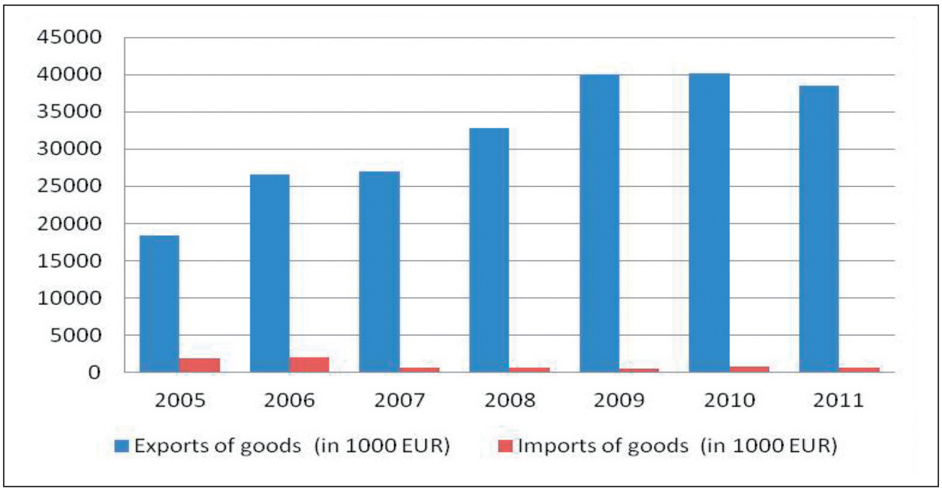
Table 1. Bilateral trade in goods between Slovenia and Albania for the period from 2005 to 2011

Year	*Exports of goods (in 1000 EUR)*	*Share of total Slovenian exports (in %)*	*Imports of goods (in 1000 EUR)*	*Share of total Slovenian imports (in %)*	*Balance (in 1000 EUR)*	*Ratio of exports to imports (in %)*
2005	18418	0.13	1949	0.01	16469	945.00
2006	26564	0.16	1990	0.01	24574	1334.87
2007	26997	0.14	669	0.00	26328	4035.43
2008	32824	0.17	687	0.00	32137	4777.87
2009	40027	0.25	499	0.00	39528	8021.44
2010	40097	0.22	814	0.00	39283	4925.92
2011	38461	0.18	641	0.00	37820	6000.16

Source: Statistical Office of the Republic of Slovenia.

The value of bilateral trade in goods between Slovenia and Albania is among the lowest compared to the other nine countries. The share of Slovenian exports to Albania in total Slovenian exports is below 1% (the average share in the period from 2005 to 2011 was 0.18%), and the share of imports to Albania in total Slovenian imports is even lower. While exports to Albania increased – the average growth rate during the period concerned was 13.15% per year, imports from Albania decreased (on average by 16.63% per year). Slovenia recorded a significant surplus during the period concerned, as *Chart 1* clearly shows.

Chart 1. Albania – exports and imports of goods for the period from 2005 to 2011



Source: Statistical Office of the Republic of Slovenia.

The structure of goods exported to Albania has remained more or less stable during the period concerned, and partial data for 2012 show that export structure has remained almost the same. According to the 4-digit code of the Combined Nomenclature Slovenia exports mainly medicaments (around 20% of total exports in every year from 2005 to 2011); food preparations (around 13%); preparations for use on the hair (around 5-6%); undenatured ethyl alcohol; newsprint, in rolls or sheets; structures and parts of structures of iron and steel; and new pneumatic tyres, of rubber. According to SITC classification the most important sections in exports were 5 – chemicals and related products, 6 – manufactured goods classified chiefly by material, 0 – food and live animals, 7 – machinery and transport equipment, 8 – miscellaneous manufactured articles.

The structure of imports has been less stable. In 2005 in 2006 Slovenia imported mainly ferro-alloys, 77% and 90% of total imports, respectively. In the following years Slovenia imported mainly footwear; unwroth aluminium; melons and papaws, fresh; structures and parts of structures of iron and steel; medicaments; and seats. According to SITC classification the most important section in imports in the past four years was 8 – miscellaneous manufactured articles. The number of Slovenian companies that exported to Albania in 2011 was 230, and the number of importing companies was 31.

1.2. Bosnia and Herzegovina

1.2.1. Bilateral Agreements

Bosnia and Herzegovina and EU signed *Stabilisation and Association Agreement* in 2008, and in the same year the trade part of the SAA came into force through *Interim Agreement on trade and trade-related issues*. In 2000, the EU granted *autonomous trade preferences* to all the Western Balkans. These preferences were renewed in 2005 and in 2011 until 2015. They allow nearly all exports to enter the EU without customs duties or limits on quantities (only wine, baby beef and certain fisheries products enter the EU under preferential tariff quotas).

The most important *bilateral agreements* fostering bilateral economic cooperation with Bosnia and Herzegovina are:

- Agreement for Scientific and Technological Cooperation (1996);
- Air Transport Agreement (1997);
- Agreement on International Road Transport of Passengers and Goods (2000);
- Agreement for the Promotion and Protection of Investment (2001);
- Agreement Regarding Mutual Assistance in Customs Matters (2003);

- Agreement for the Avoidance of Double Taxation (2006);
- Agreement on Development Cooperation (2006);
- Agreement on Social Insurance (2008);
- Agreement on Economic Cooperation (2009).

1.2.2. Bilateral Trade

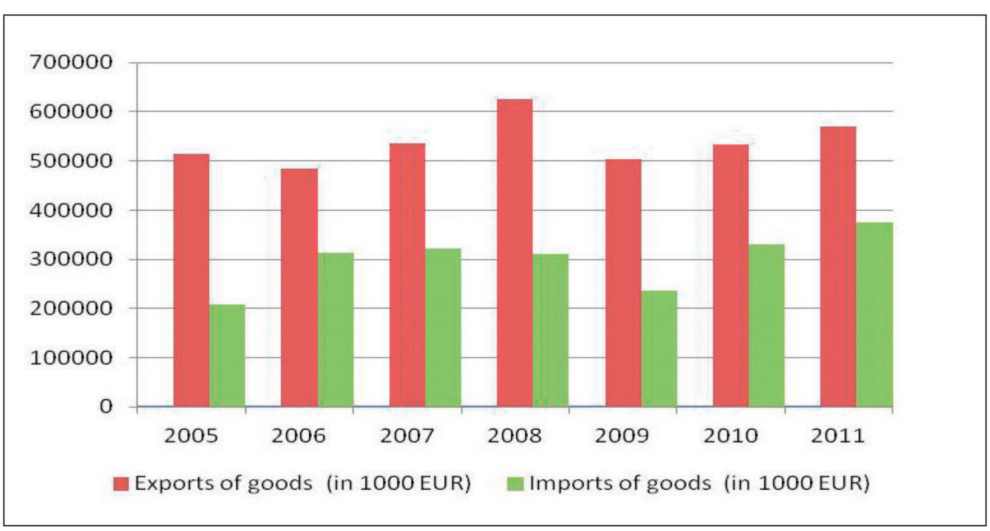
Table 2. Bilateral trade in goods between Slovenia and Bosnia and Herzegovina for the period from 2005 to 2011 (in 1000 EUR)

Year	*Exports of goods (in 1000 EUR)*	*Share of total Slovenian exports (in %)*	*Imports of goods (in 1000 EUR)*	*Share of total Slovenian imports (in %)*	*Balance (in 1000 EUR)*	*Ratio of exports to imports (in %)*
2005	514754	3.58	207780	1.31	306974	247.74
2006	484594	2.89	312477	1.70	172117	155.08
2007	535314	2.76	320700	1.49	214614	166.92
2008	625908	3.16	311564	1.35	314344	200.89
2009	502490	3.12	236271	1.38	266219	212.68
2010	533834	2.90	329743	1.64	204091	161.89
2011	570735	2.74	375912	1.67	194823	151.83

Source: Statistical Office of the Republic of Slovenia.

Bosnia and Herzegovina is the second most important trade partner of Slovenia among the countries considered. In the period from 2005 to 2011 the value of Slovenian exports to Bosnia increased on average by 1.57% per year; however, the share in total exports decreased from 3.58% to 2.74%. At the same time, the share of imports from Bosnia increased from 1.31% to 1.67%. Average import growth for the period concerned was 10.47% per year. Slovenia recorded a surplus during the period concerned, as *Chart 2* clearly shows.

Chart 2. Bosnia and Herzegovina – exports and imports of goods for the period from 2005 to 2011



Source: Statistical Office of the Republic of Slovenia.

The structure of goods exported to Bosnia and Herzegovina changed little during the period concerned, and partial data for 2012 confirm this trend. According to the 4-digit code of the Combined Nomenclature Slovenia exports mainly medicaments (on average around 6% of total exports from 2005 to 2011); petroleum oils and oils obtained from bituminous minerals, other than crude (the share increased from 1.5% to 10% in 2011); motor cars and other vehicles principally designed for the transport of persons; new pneumatic tyres, of rubber; food preparations; waters, including mineral waters and aerated waters; insulated wire, cable and other insulated electric conductors; and preparations of a kind used in animal feeding. According to SITC classification the most important sections in exports were 5 – chemicals and related products, 6 – manufactured goods classified chiefly by material, and 7 – machinery and transport equipment.

The structure of imports remained stable as well. According to SITC classification the most important section in imports was 7 – machinery and transport equipment. According to the 4-digit code of the Combined Nomenclature Slovenia imports mainly air or vacuum pumps, air or other gas compressors and fans (on average 19.3% of total imports per year); ferrous waste and scrap; insulated wire, cable and other insulated electric conductors; and fuel wood. The number of Slovenian companies that exported to Bosnia in 2011 was 3255, and the number of importing companies was 1107.

1.3. Kazakhstan

1.3.1. Bilateral Agreements

Trade and economic relatins between EU and Kazakhstan are governed by the *Partnership and Cooperation Agreement* that entered into force in 1999. In November 2011, the EU and Kazakhstan opened the negotiations of a new, enhanced Partnership and Cooperation Agreement replacing the current one, with the aim to further strengthen the bilateral relations. The enhanced agreement, once concluded, will bring about better conditions for the trade and investment relations between the two parties. Since the expiry of the EC-Kazakhstan steel agreement at the end of 2006, the bilateral *trade in steel* has been based on autonomous measures. Once signed, a new agreement will replace these measures. Following the expiry of the EC-Kazakhstan textiles agreement at the end of 2004, the two sides concluded an additional Protocol to the existing Partnership Co-operation Agreement, thus extending its provisions on *trade in textiles* established in 2006. At the moment Kazakhstan still enjoys trade preferences with the EU under the *Generalised Scheme of Preferences*, however, the EU issued its revised import preference scheme on 31 October, and according to it, as of 1 January 2014 Kazakhstan will no longer enjoy the preferences (the reason being that Kazakhstan is among countries that have been listed by the World Bank as upper middle income economies for the past three years).

The most important *bilateral agreements* fostering bilateral economic cooperation with Kazakhstan are:

- Agreement on Economic Cooperation (2010);
- Agreement on International Road Transport of Passengers and Goods (2010).

Slovenia and Kazakhstan are in the process of negotiating the Agreement for the Promotion and Protection of Investment, while negotiations on the Agreement for the Avoidance of Double Taxation are concluded, and the Agreement is expected to be signed in 2013.

1.3.2. Bilateral Trade

The value of bilateral trade with Kazakhstan is relatively low. Nonetheless, exports increased by an average of 7.44% per year in the period from 2005 to 2011, while imports decreased by –8.27%. Slovenia recorded surpluses in every year, and they more than doubled from 2005 to 2011.

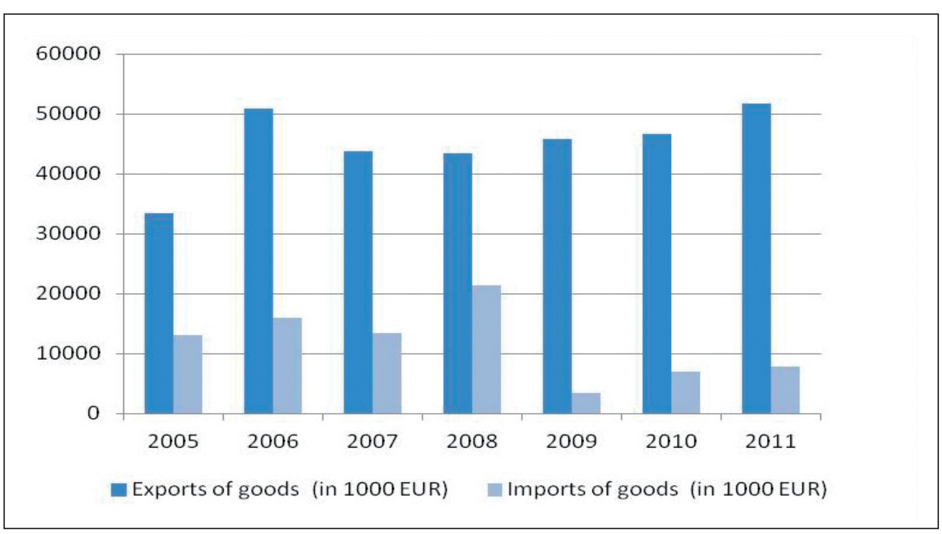
The structure of bilateral trade remained almost unchanged during the period concerned, and the same goes for 2012, as available data show. According to the 4-digit code of the Combined Nomenclature exports to Kazakhstan were dominated by medicaments (on average around 45% of total exports from 2005 to 2011); telephone sets; and human blood. The most important import item are ferro-alloys, followed by petroleum gases and other gaseous hydrocarbons. According to SITC classification the most important section in exports was 5 – chemicals and related products; while in imports sections 3 – mineral fuels, lubricants and related materials, and 6 – manufactured goods classified chiefly by material dominate. The number of Slovenian companies that exported to Kazakhstan in 2011 was 61, and the number of importing companies was only 11.

Table 3. Bilateral trade in goods between Slovenia and Kazakhstan for the period from 2005 to 2011 (in 1000 EUR)

Year	*Exports of goods (in 1000 EUR)*	*Share of total Slovenian exports (in %)*	*Imports of goods (in 1000 EUR)*	*Share of total Slovenian imports (in %)*	*Balance (in 1000 EUR)*	*Ratio of exports to imports (in %)*
2005	33494	0.23	13167	0.08	20327	254.38
2006	50813	0.30	16059	0.09	34754	316.41
2007	43759	0.23	13470	0.06	30289	324.86
2008	43444	0.22	21334	0.09	22110	203.64
2009	45819	0.28	3388	0.02	42431	1352.39
2010	46722	0.25	7073	0.04	39649	660.57
2011	51730	0.25	7805	0.03	43925	662.78

Source: Statistical Office of the Republic of Slovenia.

Chart 3. Kazakhstan – exports and imports of goods for the period from 2005 to 2011



Source: Statistical Office of the Republic of Slovenia.

1.4. Kosovo

1.4.1. Bilateral Agreements

Kosovo is in a potential candidate for EU membership; however negotiations on signing the Stabilisation and Association Agreement have not started yet. Kosovo enjoys the *autonomous trade preferences* that were renewed until 2015. They allow nearly all exports to enter the EU without customs duties or limits on quantities (only wine, baby beef and certain fisheries products enter the EU under preferential tariff quotas).

The most important *bilateral agreements* fostering bilateral economic cooperation with Kosovo are:

- Agreement on Development Cooperation (2010);
- Agreement Regarding Mutual Assistance in Customs Matters (2011).

Slovenia and Kosovo are in the process of negotiating the Agreement for the Promotion and Protection of Investment and the Agreement for the Avoidance of Double Taxation.

1.4.2. Bilateral Trade

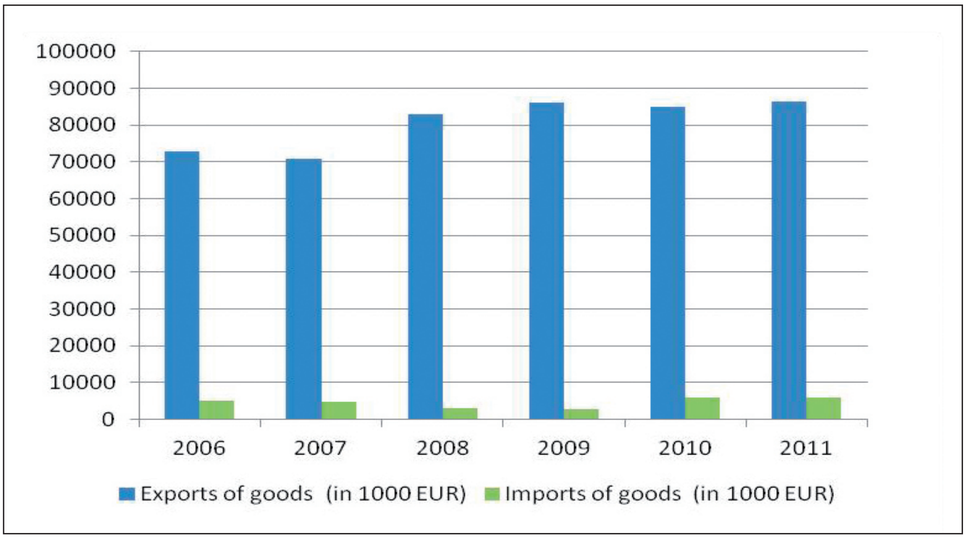
Table 4. Bilateral trade in goods between Slovenia and Kosovo for the period from 2006 to 2011 (in 1000 EUR)

Year	*Exports of goods (in 1000 EUR)*	*Share of total Slovenian exports (in %)*	*Imports of goods (in 1000 EUR)*	*Share of total Slovenian imports (in %)*	*Balance (in 1000 EUR)*	*Ratio of exports to imports (in %)*
2006	72755	0.43	4940	0.03	67815	1472.77
2007	70851	0.37	4664	0.02	66187	1519.10
2008	82905	0.42	3153	0.01	79752	2629.40
2009	86005	0.53	2678	0.02	83327	3211.54
2010	84933	0.46	5858	0.03	79075	1449.86
2011	86436	0.42	5893	0.03	80543	1466.76

Source: Statistical Office of the Republic of Slovenia.

Given its small size and underdeveloped market the value of trade between Slovenia and Kosovo is accordingly modest. The average share of Slovenian exports to Kosovo in total exports was 0.44% in the period from 2006 to 2011, and the average share of Slovenian imports from Kosovo in total imports was only 0.02%. Slovenia recorded surpluses in trade balance in every year. Slovenian exports to Kosovo grew on average by 3.57% per year, while imports from Kosovo fell on average by 8.17% per year.

Chart 4. Kosovo – exports and imports of goods for the period from 2006 to 2011



Source: Statistical Office of the Republic of Slovenia.

According to the 4-digit code of the Combined Nomenclature main exports to Kosovo in the period concerned were medicaments (their share in total exports to Kosovo increased from 4.2% in 2006 to 7.7% in 2011); waters, including mineral waters and aerated waters; preparations for use on the hair; milk and cream; and sausages and similar products, of meat, offal or blood. According to SITC classification the most important sections in exports were 0 – food and live animals, 5 – chemicals and related products, 6 – manufactured goods classified chiefly by material, and 7 – machinery and transport equipment.

The two main importing articles according to the 4-digit code of the Combined Nomenclature in the period concerned were waste and scrap of copper and waste and scrap of aluminium, that together amounted to 60% of total imports from Kosovo. Accordingly, the most important import section in SITC classification was 2 – crude materials, inedible, except fuels.

1.5. Macedonia

1.5.1. Bilateral Agreements

Macedonia and EU signed *Stabilisation and Association Agreement* in 2001 and it entered into force in 2004. Macedonia was granted candidate status in December 2005. Macedonia also enjoys *autonomous trade preferences* like all the Western Balkans (renewed until 2015). They allow nearly all exports to enter the EU without customs duties or limits on quantities (only wine, baby beef and certain fisheries products enter the EU under preferential tariff quotas).

The most important *bilateral agreements* fostering bilateral economic cooperation with Macedonia are:

- Agreement on Economic Cooperation (1992, amended in 2007);
- Agreement for the Avoidance of Double Taxation (1999);
- Agreement for the Promotion and Protection of Investment (1999);
- Agreement on International Road Transport of Passengers and Goods (1999);
- Treaty on the Settlement of Property Law Relations (1999);
- Agreement on Social Insurance (2000);
- Agreement Regarding Mutual Assistance in Customs Matters (2001);
- Memorandum of Understanding on Cooperation in the Area of Public Finance (2003);
- Agreement on Development Cooperation (2006);

- Memorandum of Cooperation Between the Government Office for Local Self-Government and Regional Policy of the Republic of Slovenia and the Ministry of Local Self-Government of the Republic of Macedonia (2010);
- Memorandums on International Development Cooperation (for 2011 and 2012).

1.5.2. Bilateral Trade

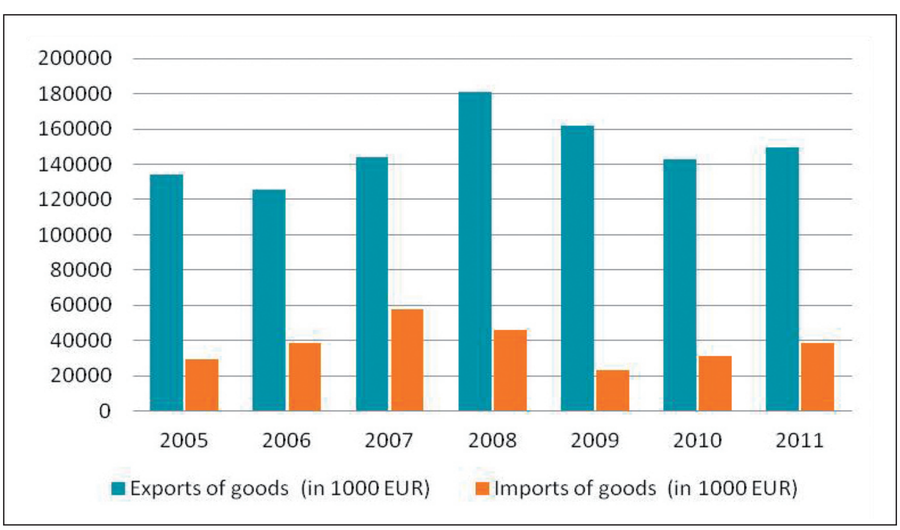
Table 5. Bilateral trade in goods between Slovenia and Macedonia for the period from 2005 to 2011 (in 1000 EUR)

Year	*Exports of goods (in 1000 EUR)*	*Share of total Slovenian exports (in %)*	*Imports of goods (in 1000 EUR)*	*Share of total Slovenian imports (in %)*	*Balance (in 1000 EUR)*	*Ratio of exports to imports (in %)*
2005	134141	0.93	29074	0.18	105067	461.38
2006	125700	0.75	38348	0.21	87352	327.79
2007	144226	0.74	57588	0.27	86638	250.44
2008	181253	0.92	45749	0.20	135504	396.19
2009	161631	1.00	23136	0.13	138495	698.61
2010	142549	0.77	31320	0.16	111229	455.14
2011	149436	0.72	38357	0.17	111079	389.59

Source: Statistical Office of the Republic of Slovenia.

Among the ten countries analysed, Macedonia is the fifth most important country Slovenia exports to, and the fourth most important according to the value of Slovenia's imports. Both exports and imports increased between 2005 and 2011. Exports increased on average by 1.91% per year, and imports by 4.65% per year. As it was the case with all the countries, except Turkey, Slovenia recorded large trade surpluses during the period concerned.

Chart 5. Macedonia – exports and imports of goods for the period from 2005 to 2011



Source: Statistical Office of the Republic of Slovenia.

The structure of goods Slovenia exported to Macedonia changed little during the period concerned, and partial data for 2012 confirm this. According to the 4-digit code of the Combined Nomenclature Slovenia exports mainly medicaments (on average around 14% of total exports from 2005 to 2011); food preparations; other prepared or preserved meat; preparations for use on the hair; meat and edible offal, of the poultry; new pneumatic tyres, of rubber; and sausages and similar products, of meat, offal or blood. According to SITC classification the most important sections in exports were 0 – food and live animals, 5 – chemicals and related products, 6 – manufactured goods classified chiefly by material, and 7 – machinery and transport equipment.

The structure of imports remained stable as well. According to SITC classification the most important section in imports was 6 – manufactured goods classified chiefly by material. According to the 4-digit code of the Combined Nomenclature Slovenia imports mainly other tubes, pipes and hollow profiles, of iron or steel (on average 12.1% of total imports per year); flat-rolled products of iron or non-alloy steel; parts and accessories of the motor vehicles; seats; and ferro-alloys.

1.6. Moldova

1.6.1. Bilateral Agreements

Moldova has had a non-preferential *Partneship and Cooperation Agreement* with the EU since 1994; however, the EU is negotiating a new *Association Agreement* with Moldova since January 2010 (the negotiations on the trade part of this agreement – Deep and Comprehensive Free Trade Area, started in February 2012). Moldova's exports to the EU are already liberalised to a large extent under the EU *Autonomous Trade Preferences*. This preferential regime (together with Generalised Scheme of Preferences Plus regime) offers the most favourable access to the EU market for Moldova. It grants Moldova unlimited and duty free access to the EU market for all products originating in Moldova, except for certain agricultural products (for which tariff rate quotas are defined).

The most important *bilateral agreements* fostering bilateral economic cooperation with Moldova are:

- Agreement on International Road Transport of Passengers and Goods (2000);
- Agreement for the Promotion and Protection of Investment (2004);
- Agreement for the Avoidance of Double Taxation (2006);
- Agreement on Development Cooperation (2007);
- Memorandum on Cooperation between the Ministry of the Economy of the Republic of Slovenia and the Ministry of Economy and Trade of the Republic of Moldova (2008).

1.6.2. Bilateral Trade

Table 6. Bilateral trade in goods between Slovenia and Moldova for the period from 2005 to 2011 (in 1000 EUR)

Year	*Exports of goods (in 1000 EUR)*	*Share of total Slovenian exports (in %)*	*Imports of goods (in 1000 EUR)*	*Share of total Slovenian imports (in %)*	*Balance (in 1000 EUR)*	*Ratio of exports to imports (in %)*
2005	10339	0.07	806	0.01	9533	1282.75
2006	12344	0.07	1191	0.01	11153	1036.44
2007	12225	0.06	806	0.00	11419	1516.75
2008	11156	0.06	1328	0.01	9828	840.06
2009	11142	0.07	810	0.00	10332	1375.56
2010	11723	0.06	888	0.00	10835	1320.16
2011	14523	0.07	992	0.00	13531	1464.01

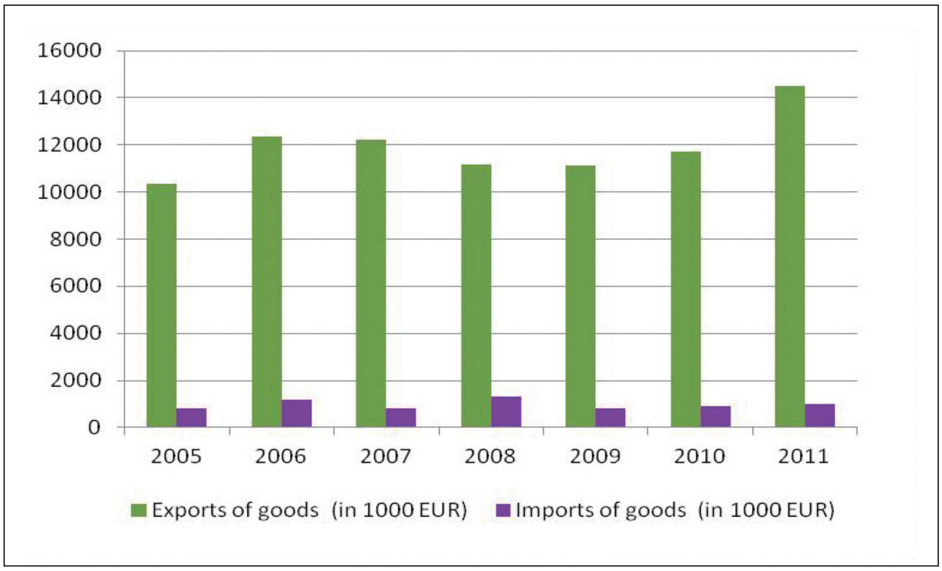
Source: Statistical Office of the Republic of Slovenia.

The value of bilateral trade with Moldova is the lowest among the ten countries analysed. The share of Slovenian exports to Moldova in total exports is only 0.07%, and imports are even lower. Both exports and imports recorded positive average growth rates in the period concerned – exports grew on average by 5.72% per year, and imports by 3.76% per year. Trade balance was hugely positive for Slovenia, as the ratio of exports to imports amounted to 1262.25%, on average per year.

According to the 4-digit code of the Combined Nomenclature Slovenian exports to Moldova are dominated by medicaments (their share in total exports to Moldova increased from 34.3% in 2005 to 45.4% in 2011); followed by telephone sets, and other apparatus for the transmission or reception of voice, images or other data. According to SITC classification the most important sections in exports was 5 – chemicals and related products.

The structure of imports is more diversified. From 2005 to 2008 the main importing article were harvesting or threshing machinery, including straw or fodder balers (almost 50% of total imports), and from 2009 to 2011 main importing articles, that together amounted to almost 90% of total imports, were woven fabrics of cotton; other nuts, fresh or dried; sunflower-seed, safflower or cotton-seed oil and fractions thereof; and bedlinen, table linen, toilet linen and kitchen linen. According to SITC classification the most important sections in imports from 2005 to 2008 were 7 – machinery and transport equipment, and 6 – manufactured goods classified chiefly by material from 2009 to 2011. The number of Slovenian companies that exported to Moldova in 2011 was 89, and the number of importing companies was 17.

Chart 6. Moldova – exports and imports of goods for the period from 2005 to 2011



Source: Statistical Office of the Republic of Slovenia.

1.7. Montenegro

1.7.1. Bilateral Agreements

Montenegro and EU signed *Stabilisation and Association Agreement* in 2007 and it entered into force in 2010. In 2000, the EU granted *autonomous trade preferences* to all the Western Balkans. These preferences were renewed in 2005 and in 2011 until 2015. They allow nearly all exports to enter the EU without customs duties or limits on quantities (only wine, baby beef and certain fisheries products enter the EU under preferential tariff quotas).

The most important *bilateral agreements* fostering bilateral economic cooperation with Montenegro are:

- Agreement Regarding Mutual Assistance in Customs Matters (2008);
- Agreement for Scientific and Technological Cooperation (2009);
- Agreement on Development Cooperation (2009);
- Agreement on International Road Transport of Passengers and Goods (2011);
- Agreement on Social Insurance (2011);
- Agreement on Economic Cooperation (2012);
- Decision on Approval of the Programme for International Development Cooperation (for 2010, 2011 and 2012).

Slovenia and Montenegro are currently in the process of negotiating the Agreement for the Promotion and Protection of Investment.

1.7.2. Bilateral Trade

Table 7. Bilateral trade in goods between Slovenia and Montenegro for the period from 2006 to 2011 (in 1000 EUR)

Year	*Exports of goods (in 1000 EUR)*	*Share of total Slovenian exports (in %)*	*Imports of goods (in 1000 EUR)*	*Share of total Slovenian imports (in %)*	*Balance (in 1000 EUR)*	*Ratio of exports to imports (in %)*
2006	79324	0.47	19409	0.11	59915	408.70
2007	111232	0.57	23639	0.11	87593	470.54
2008	120457	0.61	39972	0.17	80485	301.35
2009	88574	0.55	17630	0.10	70944	502.40
2010	83882	0.46	26282	0.13	57600	319.16
2011	86065	0.41	26990	0.12	59075	318.88

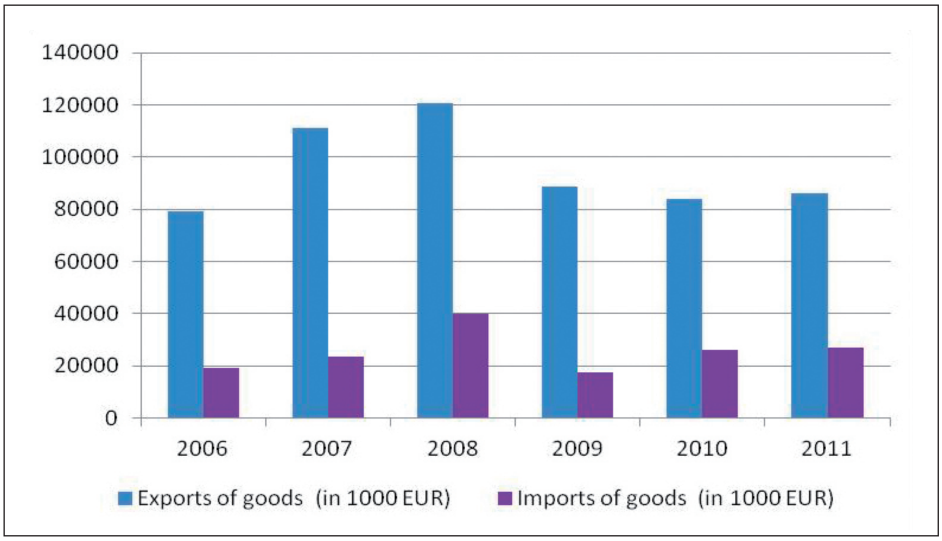
Source: Statistical Office of the Republic of Slovenia.

The value of Slovenian exports to Montenegro in the past three years was similar to that of Kosovo, while the value of imports from Montenegro was significantly higher compared to Kosovo. Exports grew on average by 1.83% per year. Imports, however, recorded a higher growth of 6.84% on average per year. The share of Slovenia's exports to Montenegro in total exports is lower than 1%, the same goes for the share of imports from Montenegro in total imports. Trade balance is positive – Slovenia recorded high surpluses throughout the period concerned.

The structure of goods exported to Montenegro did not change significantly during the period concerned. According to the 4-digit code of the Combined Nomenclature Slovenia exports mainly medicaments (on average 6.8% of total exports from 2009 to 2011, and 3.2% in the preceding three years); followed by motor cars and other motor vehicles principally designed for the transport of persons; food preparations; and petroleum oils and oils obtained from bituminous minerals, other than crude (important in 2011). According to SITC classification the most important sections in exports was 7 – machinery and transport equipment.

The structure of imports from Montenegro is similar to the structure of Montenegrin exports. Throughout the period concerned, according to the 4-digit code of the Combined Nomenclature Slovenia imported mainly unwrought aluminium, which amounted to as high as 82.8% of total imports; and the second and third most important import items were waste and scrap of copper and waste and scrap of aluminium. SITC classification confirms these data as section 6 –manufactured goods classified chiefly by material was the most prominent one in the period concerned.

Chart 7. Montenegro – exports and imports of goods for the period from 2006 to 2011



Source: Statistical Office of the Republic of Slovenia.

1.8. Serbia

1.8.1. Bilateral Agreements

Serbia and EU signed *Stabilisation and Association Agreement* in 2008, and at the same time the provisional application of the trade part of the SAA became effective through *Interim Agreement on trade and trade-related issues* (the latter eventually came into force in 2010). Serbia also enjoys *autonomous trade preferences* that were renewed in 2005 and in 2011 until 2015. They allow nearly all exports to enter the EU without customs duties or limits on quantities (only wine, baby beef and certain fisheries products enter the EU under preferential tariff quotas).

The most important *bilateral agreements* fostering bilateral economic cooperation with Serbia are:

- Agreement on Trade and Economic Cooperation (2001);
- Agreement for the Promotion and Protection of Investment (2002);
- Agreement on the Cooperation in Tourism (2002);
- Agreement on International Road Transport of Passengers and Goods (2002);
- Agreement for Scientific and Technological Cooperation (2002);
- Agreement for the Avoidance of Double Taxation (2003);
- Agreement on Development Cooperation (2005);
- Agreement Regarding Mutual Assistance in Customs Matters (2008);
- Agreement on Social Insurance (2010).

1.8.2. Bilateral Trade

Serbia is one of Slovenia's most important trade and economic partners. According to the total value of bilateral trade, Serbia was ranked 10th most important trade partner of Slovenia in 2011 (8th according to Slovenia's total exports, and 14th in imports). Among the countries analysed, Serbia is ranked 1st, both in exports and in imports. In addition, both exports and imports still have an upward trend. Slovenian exports to Serbia increased on average by 4.03% per year in the period from 2006 to 2011, while imports increased by a remarkable 11.80% per year. Growth rates were negative only in 2009, both for exports as for imports, which was the result of the economic crisis in both countries. Slovenia has traditionally recorded surpluses in the trade balance with Serbia, however, the value of surplus is decreasing since 2009, the reason being a quicker recovery of imports than of exports.

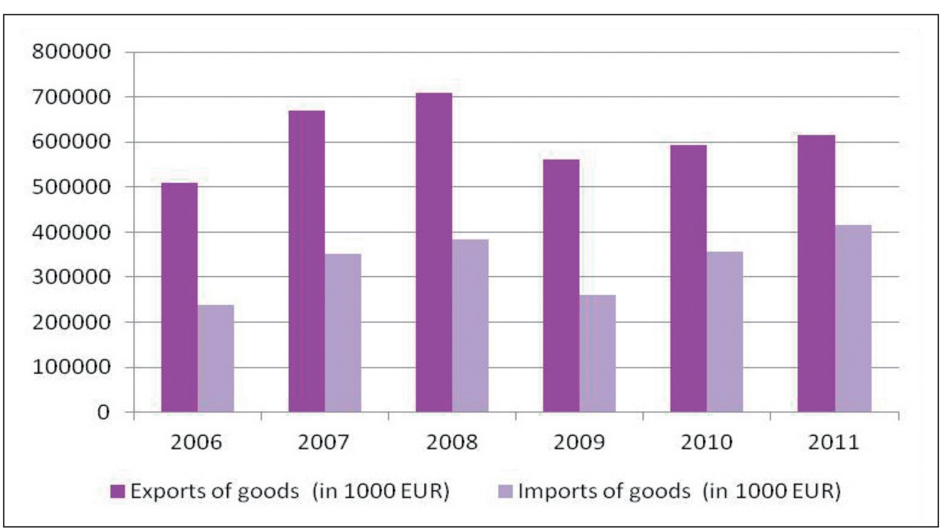
Table 8. Bilateral trade in goods between Slovenia and Serbia for the period from 2006 to 2011 (in 1000 EUR)

Year	Exports of goods (in 1000 EUR)	Share of total Slovenian exports (in %)	Imports of goods (in 1000 EUR)	Share of total Slovenian imports (in %)	Balance (in 1000 EUR)	Ratio of exports to imports (in %)
2006	509038	3.04	239252	1.30	269786	212.76
2007	669928	3.45	352080	1.64	317848	190.28
2008	708496	3.58	383016	1.66	325480	184.98
2009	560870	3.48	260934	1.52	299936	214.95
2010	593203	3.22	356321	1.78	236882	166.48
2011	616620	2.96	415368	1.85	201252	148.45

Source: Statistical Office of the Republic of Slovenia.

The structure of goods exported to Serbia is quite diverse, and it changed little during the period concerned. Considering partial preliminary data it will not change much in 2012 either. According to the 4-digit code of the Combined Nomenclature Slovenia exports mainly medicaments (on average 11.5% of total exports from 2006 to 2011); followed by refrigerators, freezers and other refrigerating or freezing equipment; motor cars and other motor vehicles principally designed for the transport of persons; household or laundry-type washing machines; new pneumatic tyres, of rubber; paper and paperboard, coated on one or both sides; electrical machinery and equipment for households; and pharmaceutical goods. According to SITC classification the most important sections in exports were 5 – chemicals and related products, 6 – manufactured goods classified chiefly by material, and 7 – machinery and transport equipment.

Chart 8. Serbia – exports and imports of goods for the period from 2006 to 2011



Source: Statistical Office of the Republic of Slovenia.

The structure of imports remained stable during the period concerned, and the same goes for 2012, considering the partial data available. According to the 4-digit code of the Combined Nomenclature Slovenia imports mainly aluminium plates, sheets and strip (on average 15,9% of total imports per year); followed by unwrought aluminium; seats; air or vacuum pumps, air or other gas compressors and fans; waste and scrap of copper; parts of footwear; refrigerators, freezers and other refrigerating or freezing equipment; and flat-rolled products of iron or non-alloy steel. According to SITC classification the most important sections in imports were 6 – manufactured goods classified chiefly by material, and 7 – machinery and transport equipment.

1.9 .Turkey

1.9.1. Bilateral Agreements

Turkey and EU are linked by a *Customs Union Agreement*, which came in force on 31 December 1995. The Customs Union covers all industrial goods but does not address agriculture (except processed agricultural products), services or public procurement. Bilateral trade concessions apply to agricultural products. In addition to providing for a common external tariff for the products covered, the Customs Union foresees that Turkey is to align to the *acquis communautaire* in several essential internal market areas, notably with regard to industrial standards. Turkey has been a candidate country to join the EU since 1999, and is a member of the Euro-Mediterranean partnership (the goal is to conclude free trade agreements with all other Mediterranean partners, with a view to the creation of a Euro-Mediterranean free trade area).

The most important *bilateral agreements* fostering bilateral economic cooperation with Turkey are:

- Agreement on Trade and Economic Cooperation (1997);
- Air Transport Agreement (1998);
- Agreement for the Avoidance of Double Taxation (2002);
- Agreement for Scientific and Technological Cooperation (2003);
- Agreement on International Road Transport of Passengers and Goods (2005);
- Agreement for the Promotion and Protection of Investment (2006);
- Agreement Regarding Mutual Assistance in Customs Matters (2007).

1.9.2. Bilateral Trade

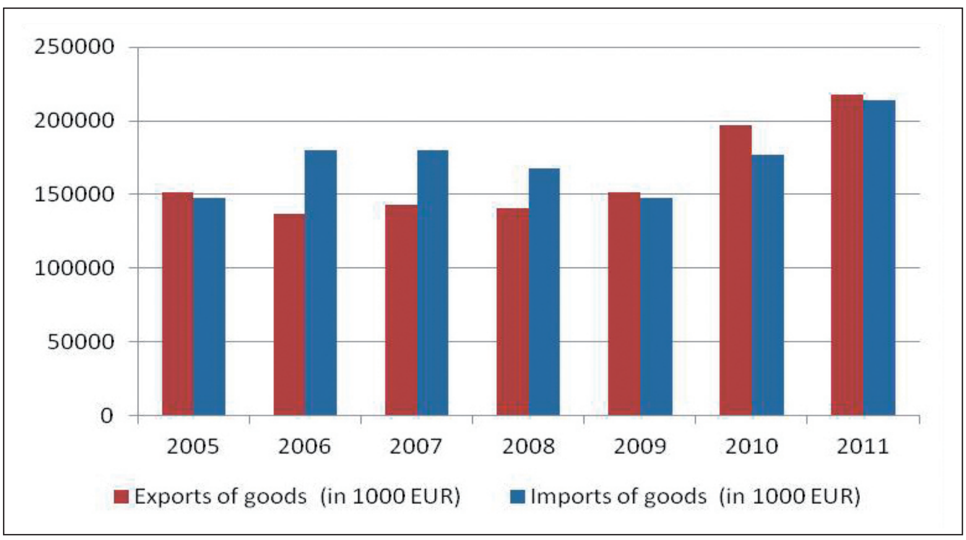
Table 9. Bilateral trade in goods between Slovenia and Turkey for the period from 2005 to 2011 (in 1000 EUR)

Year	*Exports of goods (in 1000 EUR)*	*Share of total Slovenian exports (in %)*	*Imports of goods (in 1000 EUR)*	*Share of total Slovenian imports (in %)*	*Balance (in 1000 EUR)*	*Ratio of exports to imports (in %)*
2005	151391	1.05	147652	0.93	3739	102.53
2006	136507	0.81	180227	0.98	-43720	75.74
2007	142939	0.74	179940	0.84	-37001	79.44
2008	140700	0.71	167579	0.73	-26879	83.96
2009	151652	0.94	147476	0.86	4176	102.83
2010	197073	1.07	176988	0.88	20085	111.35
2011	217760	1.05	213649	0.95	4111	101.92

Source: Statistical Office of the Republic of Slovenia.

The importance of Turkey in bilateral trade and economic cooperation with Slovenia has been steadily increasing in recent years. In 2011, Turkey was the 21st most important trade partner of Slovenia. Among the ten countries analysed, Turkey is ranked third, both in exports and in imports. The value of exports increased on average by 6.31% per year in the period from 2005 to 2011, and the value of imports increased by 6.39% per year. The share of Slovenian exports to Turkey in total exports was 1.05% in 2011, while the share of imports from Turkey in total imports was 0.95%. Turkey was the only one of the countries analysed that Slovenia recorded a trade deficit with; however, deficit was recorded only in the following three consecutive years – 2006, 2007 and 2008. In the remaining years Slovenia recorded modest surpluses, as *Chart 9* shows. The number of Slovenian companies that engage in trade with Turkey has been increasing. In 2011 the number of exporting companies was 374, and the number of importing companies was 774.

Chart 9. Turkey – exports and imports of goods for the period from 2005 to 2011



Source: Statistical Office of the Republic of Slovenia.

The structure of goods exported to Turkey is quite diverse according to the 4-digit code of the Combined Nomenclature, in addition, it did not vary much during the period concerned. Slovenia exported mainly air or vacuum pumps, air or other gas compressors and fans (their share in total exports to Turkey fell from 14.9% in 2005 to 3.8% in 2011); other colouring matter and inorganic products of a kind used as luminophores, whether or not chemically defined; paper and paperboard, coated on one or both sides; parts and accessories of the motor vehicles; new pneumatic tyres, of rubber; and unwroth aluminium. According to SITC classification the most important sections in exports were were 6 – manufactured goods classified chiefly by material, and 7 – machinery and transport equipment.

The structure of imports is a bit less diversified, and it did not change much year-by-year. According to SITC classification the most important section in imports was 7 – machinery and transport equipment. According to the 4-digit code of the Combined Nomenclature Slovenia imports mainly motor cars and other motor vehicles principally designed for the transport of persons (on average 13.8% of total imports per year); petroleum oils and oils obtained from bituminous minerals, other than crude; insulated wire, cable and other insulated electric conductors; motor vehicles for the transport of ten or more persons; medicaments; parts and accessories of the motor vehicles; and new pneumatic tyres, of rubber.

1.10 .Ukraine

1.10.1. Bilateral Agreements

Ukraine and EU have negotiated a comprehensive *Free Trade Agreement* (DCFTA). The negotiations were launched in 2008 and they have now been concluded. The DCFTA will be part of a future *Association Agreement* (the initialing took place in March 2012), which will replace the present *Partnership and Cooperation Agreement* between the EU and Ukraine (which dates from 1997). The Free Trade Agreement between the EU and Ukraine will cover all trade-related areas (including services, intellectual property rights, customs, public procurement, energy-related issues, competition, et cetera). Ukrainian exports to the EU are to a very large extent liberalised thanks to the *Generalised Scheme of Preferences* granted by the EU to Ukraine since 1993.

The most important *bilateral agreements* fostering bilateral economic cooperation with Ukraine are:

- Agreement on Trade and Economic Cooperation (1997);
- Agreement for the Promotion and Protection of Investment (2000);
- Agreement on International Road Transport of Passengers and Goods (2002);
- Agreement for the Avoidance of Double Taxation (2004);
- Agreement Regarding Mutual Assistance in Customs Matters (2004);
- Agreement on Development Cooperation (2009).

1.10.2. Bilateral Trade

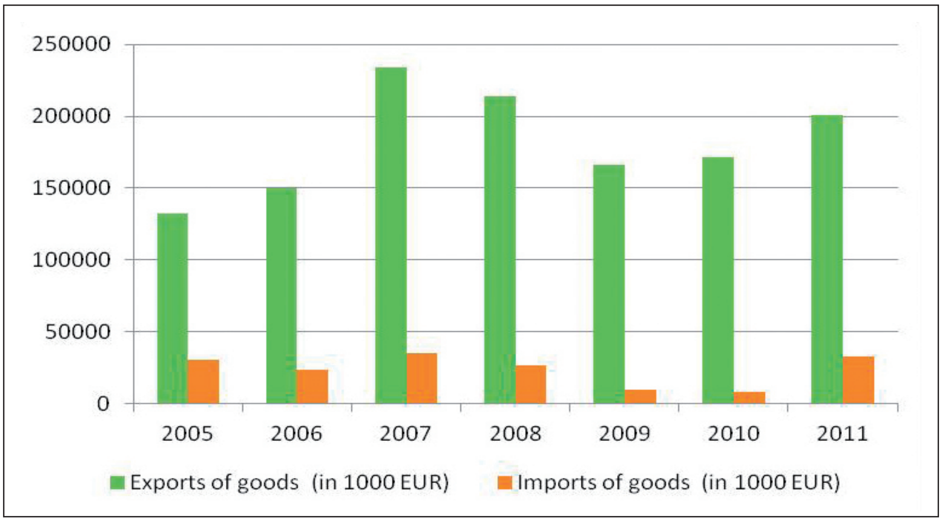
Table 10. Bilateral trade in goods between Slovenia and Ukraine for the period from 2005 to 2011 (in 1000 EUR)

Year	*Exports of goods (in 1000 EUR)*	*Share of total Slovenian exports (in %)*	*Imports of goods (in 1000 EUR)*	*Share of total Slovenian imports (in %)*	*Balance (in 1000 EUR)*	*Ratio of exports to imports (in %)*
2005	132481	0.92	30610	0.19	101871	432.80
2006	149745	0.89	23498	0.13	126247	637.27
2007	234091	1.21	34858	0.16	199233	671.56
2008	214163	1.08	26677	0.12	187486	802.80
2009	166337	1.03	10056	0.06	156281	1654.11
2010	171538	0.93	8457	0.04	163081	2028.36
2011	201158	0.97	32582	0.15	168576	617.39

Source: Statistical Office of the Republic of Slovenia.

Ukraine is an important trade partner of Slovenia. In 2011, Ukraine was ranked 27th according to the value of trade (22nd according to exports, and 41st according to imports). Among the ten countries analysed, Ukraine is ranked fourth according to Slovenian exports, and fifth according to Slovenian imports. The number of Slovenian companies that engage in trade with Ukraine has been steadily increasing. In 2011 the number of exporting companies was 314, and the number of importing companies was 126. In the period concerned, the value of exports increased on average by 7.08% per year, and the value of imports increased by 1.27% per year. Slovenia recorded a significant trade surplus in every year analysed.

Chart 10. Ukraine – exports and imports of goods for the period from 2005 to 2011



Source: Statistical Office of the Republic of Slovenia.

The structure of goods exported to Ukraine changed little during the period concerned, and according to partial preliminary data it will not change in 2012 either. According to SITC classification the most important sections in exports in the period concerned were 5 – chemicals and related products, 7 – machinery and transport equipment. According to the 4-digit code of the Combined Nomenclature exports are dominated by medicaments (their share in total exports to Ukraine increased from 28.3% in 2005 to 46.2% in 2011); followed by electric instantaneous or storage water heaters and immersion heaters; other aircraft (for example, helicopters, aeroplanes); and human blood.

The structure of imports is more diversified, and it varied year-by-year. According to SITC classification the most important section in imports in the last four years was 6 – manufactured goods classified chiefly by material. According to the 4-digit code of the Combined Nomenclature Slovenia imported mainly sunflower-seed, safflower or cotton-seed oil and fractions thereof; flat-rolled products of iron or non-alloy steel; polycarboxylic acids; and petroleum oils and oils obtained from bituminous minerals, other than crude (only in 2005 and 2008).

2. OTHER TRADE RELATED ACTIVITIES IN RECIPIENT COUNTRIES

2.1. Direct investments

Foreign direct investments, especially green field investments, are closely related to trade. Evidence shows that the presence of foreign companies has a profound effect on host country's international trade. Foreign direct investments often increase both exports and imports, and companies with foreign capital tend to be more export-oriented than domestic ones and are responsible for a larger share of exports. The effects of foreign direct investments on trade are not immediate; usually it takes some time before exports increase, while the surge in imports happens straightaway – foreign investors bring their own capital equipment for their newly established production plants, and links with local suppliers are established later. The presence of foreign direct investments has a positive effect on local companies through transfer of knowledge from foreign investors to their local suppliers. This happens through transfer of knowledge about production processes, quality control techniques, or inventory management system. Because foreign companies impose higher requirements with respect to product quality (requiring quality certifications) and on-time delivery, domestic suppliers tend to upgrade their production facilities and management. Moreover, the increased demand for intermediate products resulting from foreign-owned companies can allow local suppliers to benefit from economies of scale and increase their exports as well.

There are many factors that hinder foreign direct investments. One of the main factors is political risk – the absence of political stability almost always discourages foreign investors from entering certain countries or regions. The next crucial factor is macroeconomic stability. Structural reforms and sound macroeconomic fundamentals are also essential in attracting the flows of foreign direct investment. The third critical factor is institutions or, more specifically, the pace of progress in establishing market-supporting institutions that assure protection and enforcement of property rights. Progress in the reform process, effective legal system, and lower level of corruption are all very important in encouraging foreign investments inflows. Furthermore, foreign investors look closely at a potential host country's infrastructure as well. Trade transactions costs associated with investments highly depend on the trade-facilitating infrastructure, such as the performance of the customs administration and the quality of transportation and communications networks. Investors wish to avoid long delays at borders; in addition, corruption increases their costs of doing business, which in turn lowers the competitiveness in world markets of locally produced goods. Efficient transport, energy, services and communications infrastructure is also among crucial factors for investors. Geographical location is important as well, as foreign investors tend to turn to neighbouring countries first. However, countries can improve their position by acceding to regional (free) trade agreements, which can increase the size of their markets.

When it comes to foreign direct investments Slovenia turned to neighbouring countries first, to the countries of Western Balkans, more specifically to the countries of former Yugoslavia. The majority of Slovenian direct investments are directed to these countries. Slovenia was and is one of the leading investors in this region, being able to overcome the obstacles that deterred investors from other countries. The largest obstacle was and still is high political risk. Slovenian companies have invested in the region despite political instabilities, having an advantage in better knowing specific local factors, such as business practice, culture, language, customs and etiquette. At the same time, Slovenian companies and Slovenian products have enjoyed good reputation in these countries, often being associated with quality and trust. In addition, Slovenian companies have been involved in building and upgrading the infrastructure of these countries (transport, energy and communications infrastructure). Slovenia has invested in many economic sectors in the region; thus helping in diversifying their export base and increasing the share of higher value added products. All of these countries are export oriented; the goal is to increase exports in the long run, so that they could support economic growth. At the moment however, all Western Balkan countries still record huge deficits in international trade in goods. Deficits are due to factors, such as uncompetitiveness of exports, and undiversified export base, which can be overcome through attracting larger inflow of foreign direct investments.

According to the Bank of Slovenia's data, the share of Slovenian direct investments in the four countries under consideration, namely Serbia, Bosnia and Herzegovina, Macedonia, and Montenegro, in total investments abroad was 42.70% on 31 December 2011 (including Croatia, the share of Slovenia's direct investments in these five countries in total investments abroad was 69.82%). Slovenian companies invest in Kosovo as well; however the Bank of Slovenia does not publish any official data on direct investments in Kosovo. It is estimated that the cumulative value of Slovenia's direct investments in Kosovo is at most 500 million euro.

The most important destination for Slovenian direct investments abroad among the countries analysed is Serbia. The cumulative value of Slovenian direct investments stood at 1473.80 million euro on 31 December 2011. Serbia was ranked second (after Croatia), according to the share in total Slovenian investment abroad, which amounted to 24.44%. Almost all of the larger Slovenian companies are present on the Serbian market. There are 1357 Slovenian companies registered in Serbia, which is by far the largest number of companies among all foreign investors in Serbia. In addition, these Slovenian companies together employ around 35,000 Serbian workers. There are two Slovenian-Serbian business clubs operating in Serbia, one in Belgrade and one in the region of Vojvodina. Their function is to bring together businessmen from both countries in order to increase bilateral cooperation through networking, sharing experience, and removing obstacles.

The EU accession process benefits economic cooperation between the two countries as well, as does the Serbian membership in CEFTA (Agreement on Amendment of and Accession to Central European Free Trade Agreement), and the free trade agreements between Serbia and Russian Federation, Belarus and Turkey (free trade agreement with Ukraine is currently being negotiated). In the last few years the companies from both countries have started to deepen their cooperation by joint actions in foreign markets, which are expected to continue in the future. This should in turn facilitate Serbian exports. Serbian companies are also interested in joint infrastructure projects, supported by EU funding.

The second most important country, regarding the value of Slovenian direct investments abroad, is Bosnia and Herzegovina. The cumulative value of Slovenian direct investments amounted to 612.60 million euro on 31 December 2011 (10.16% of total Slovenian investment abroad). Slovenia is ranked the fourth most important investor in Bosnia in the period from 1994 to 2011. More than 100 companies with majority Slovenian capital are among the largest in most successful Bosnian companies. They employ around 15,000 Bosnian workers. Moreover, they are among country's top exporters; they generate around 6% of Bosnian exports, and 5% of Bosnian imports. The trend that started in recent years and is expected to continue, similarly as in the case of Serbia, are joint actions of Slovenian and Bosnian companies on the third markets. In this way Slovenian companies benefit from Bosnia's free trade agreements (CEFTA; Turkey), while Bosnian companies are able to increase their exports.

Slovenian direct investments in Macedonia amounted to 321.50 million euro on 31 December 2011 (5.33% of total Slovenian investment abroad). Macedonia is ranked third among the countries analysed. Montenegro, ranked fourth, has received 166.90 million euro of Slovenian direct investments (2.77% of total Slovenian investment abroad). Both countries are members of CEFTA and both signed free trade agreements with Ukraine and Turkey. Slovenian investments in Montenegro are directed mostly in the service sector, so they do not influence trade in goods as much as it is the case in Bosnia, Serbia, Macedonia, and Kosovo. They do however influence trade in services, especially tourism, which is one of the most important sectors for Montenegrin economy.

Slovenian direct investments in the other five countries are low. The cumulative value of Slovenian direct investments in Ukraine amounted to 39.60 million euro on 31 December 2011, in Turkey 11.30 million euro, in Albania 5.30 million euro (the first investments were recorded in 2007), in Kazakhstan 1.60 million euro, and in Moldova only 0.90 million euro (the first investments were recorded in 2009).

As they are looking for faster growing markets, Slovenian companies are becoming more interested in investing in these countries as well, especially Kazakhstan. There are many opportunities for deepening bilateral cooperation between the two countries and both countries have already expressed their readiness to improve economic cooperation, both bilateral trade and investments. Kazakhstan has identified priority areas where foreign investment is needed for the period from 2010 to 2014, and where Slovenian investments are welcome as well. Slovenian companies have started to coordinate, integrate and organize joint presentations of their activities with the help of the so called "Slovenian house" in Kazakhstan, and with the support of the Slovenian government. At the moment there are around 20 Slovenian companies included in the Slovenian house in Kazakhstan, however, many other Slovenian companies are interested in establishing contacts with companies from Kazakhstan, conduct trade with or invest in Kazakhstan.

In recent years, there has been a growing interest among Slovenian companies for expanding trade and investment activity with Turkey too. For the moment Slovenian companies are mostly opening up subsidiaries and representative offices, however, there are many opportunities for green field investments in Turkey. Slovenian companies have expressed the need for a greater involvement of the Slovenian government in enabling an expansion of bilateral cooperation. In 1997, a Slovenian-Turkish business council connecting Chamber of Commerce and Industry of Slovenia and Foreign Economic Relations Board (DEIK) of Turkey was established; however it has not been very active in recent years.

Ukraine and Moldova are also interesting destinations for direct investments of Slovenian companies. In Ukraine, the most attractive sectors for Slovenian direct investments are energy and ecology (renewable sources, environment-friendly technologies, clean and economical energy technologies, waste management), car industry, metalworking industry, engineering industry, agricultural machinery and equipment, logistics, rail and road infrastructure. Moldova is interesting for Slovenian companies because of its free trade agreements with many countries (Romania, Russian Federation, Ukraine, Belarus, Armenia, Kazakhstan, Uzbekistan, Tajikistan, Turkmenistan, Kyrgyzstan, Azerbaijan, Georgia, and CEFTA), and because of investment opportunities (agriculture, energy, rail and road infrastructure, waste management, and textile industry). Investment opportunities in Albania are mostly in the construction of energy and road infrastructure.

2.2. Official development assistance

There are many cases of bilateral official development assistance projects that have directly or indirectly influenced trade in host countries. Similarly as in direct investments, most of Slovenian official development assistance is directed to the countries of Western Balkans (around 80% of total bilateral official development assistance). Slovenia has been supporting their EU integration process by providing technical assistance, also for their trade policy development. This has been executed by transferring best practices and knowledge to these countries and thus helping in creating a more competitive business environment; by supporting various measures which promote trade cooperation in the region and between the region, EU and EFTA; and by participating in policy making, which is beneficial for both sides. Slovenia has organized many educational and training courses for custom administration, for border police, and for public administration of the Western Balkan countries.

Equally important for enhancing trade in recipient countries is bilateral official development assistance that promotes investment projects. In the past three years, around two thirds of these projects were executed in Macedonia and Montenegro, since they are the only two of all priority countries that Slovenia signed special memorandums on international development cooperation with; in addition, the government adopted an approval of the programme for international development cooperation with both countries each year from 2010 to 2012.

Some examples of the investment projects, that received Slovenia's bilateral official development assistance and that have or are expected to have a positive contribution to the growth of recipient country's international trade, especially exports, are:

- Project engineering and preparing the documentation on technological and technical solutions for the opening of a brown coal mine in Macedonia (larger share of domestic production of electricity will decrease imports of electricity and improve the external balance of goods);
- Promotion of the development of small and medium-sized wood processing enterprises and their internationalization in Serbia;
- Modernization of the exploitation of mineral resources in Bosnia and Herzegovina (mining sector is crucially important in exports);
- Modernization of technological process and introduction of a remote surveillance system in a mine in Bosnia and Herzegovina;
- Establishment of two laboratories in Bosnia and Herzegovina: one in Sarajevo – Laboratory for electrical quantities, and one in Banja Luka – Laboratory for testing the safety of electrical installations and electromagnetic compatibility (Bosnian companies will be able to get quality certifications locally instead of getting it abroad as before the establishment of these two laboratories, which will simplify export procedures and lower their costs);
- Establishment of a Laboratory for materials research and installation of equipment for the laboratory in Kosovo (laboratory will simplify export procedures and lower their costs).

3. BOTTLENECKS AND SOLUTIONS

Trade can be very powerful in strengthening economic growth and development, and reducing poverty. However, developing countries may not be able to enhance their international trade by themselves, mainly because of domestic supply side constraints, such as poor trade-related infrastructure. It is important to stress, that both exports and imports contribute to economic growth, which is why trade reform should focus not only on export promotion but also on the role of imports. While custom tariff reforms are important in encouraging trade, other factors appear to play an even greater role, such as poor infrastructure – transport, energy and communications (problems in electricity infrastructure, for example, directly affect international trade and economic growth; among the ten countries analyzed Kosovo is the most vulnerable regarding electricity problems).

Much more than trade policy is required for countries to be able to integrate in the world trading system. Other macroeconomic policies aimed at improving investment climate and business environment, increasing labor productivity, and competitiveness in general, are equally important in strengthening trade. Trade is also supported by macroeconomic stability, which is in many cases achieved by exchange rate stability (in the case of Western Balkan countries, their national currencies are pegged to euro and thus exchange rates are fairly stable, especially in Bosnia that has currency board regime, while Kosovo and Montenegro use euro as their national currencies). Institution building is crucial as well – effective trade-related and market-based institutions need to be established, and the rule of law enforced.

Constraints to trade expansion vary significantly across different countries; moreover, they are more severe in smaller and more vulnerable economies, and in the case of commodity exporters. For the latter, foreign direct investments are even more important in ensuring export diversification and long term economic growth. Most of the ten countries analyzed are commodity exporters and thus highly exposed to the volatility of the world commodity prices. High concentration of exports means higher instability in exports earnings and exposure to external shocks. Diversifying their exports is therefore a priority for these countries and it can be achieved either through foreign direct investments or through official development assistance projects. This again stresses the importance of attracting foreign investors.

Countries also depend on the trade policies of their main trading partners and the access they obtain to their markets. There are three important trade relationships for the ten countries analyzed that affect their participation in world trade – the trade relationships among each other at the regional level; their relationships with the EU, which is the main external market for most of them; and their relationships with the rest of the world, especially China, and the United States, but other developed and developing countries as well. While regional trade arrangements and agreements with the EU can have special rules and provisions, integration into the world trade requires countries to above all respect the rules that have been established by the World Trade Organization (WTO). Membership in WTO is therefore essential for the countries to be able to fully integrate into the world trading system. Of the ten countries analyzed four of them are not members of WTO. Kazakhstan is expected to conclude negotiations on membership and reach the finishing line for accession in 2013. Bosnia and Herzegovina and Serbia are still in the process of negotiations, and Kosovo has not even started negotiations with the WTO yet.

The analysis of Slovenia's bilateral trade relations and trade regimes with ten priority official development assistance recipient countries has shown that cooperation is good and there are no open bilateral issues blocking trade or other forms of economic cooperation. The value of Slovenia's trade with the ten countries increased in the period concerned, and it can be concluded that direct investments of Slovenian companies and Slovenia's official development assistance projects directly or indirectly helped or are expected to help boost international trade of recipient countries, more in certain than in others.

The countries of the Western Balkans (excluding Albania, which is not a traditionally important trade partner for Slovenia) which were analyzed, namely Serbia, Bosnia and Herzegovina, Macedonia, Montenegro, and Kosovo, are important trade partners of Slovenia, because of historical ties Slovenia and Slovenian companies have in this region. Data show that changes in trade regimes did not significantly influence the value of bilateral trade, since Slovenia had had close ties with these countries even before that. In addition, before joining EU Slovenia had signed free trade agreements with the countries in this region, which were abolished once Slovenia joined EU in 2004. The most important factor that influenced bilateral trade and direct investment in the period concerned was the global economic crisis, and its negative effects were especially evident in 2009. Slovenia has signed most of the important bilateral agreements that foster economic cooperation with the countries of Western Balkans, including with Albania. Slovenia is in the process of negotiating the Agreement for the Promotion and Protection of Investment with Montenegro and Kosovo, and negotiating the Agreement for the Avoidance of Double Taxation with Kosovo. One of the good practices is establishing bilateral Business Clubs that help to bring together companies and businessmen from Slovenia and other countries, to exchange information and experience, which could in turn increase not only the trade value but other forms of economic cooperation as well.

Regarding trade regimes with other countries analyzed, Slovenia supports their integration with the EU. The EU and Kazakhstan opened the negotiations of a new, enhanced Partnership and Cooperation Agreement that will bring about better conditions for the trade and investment relations between the two parties. In order to improve bilateral cooperation Slovenia has already started negotiations on signing the Agreement for the Promotion and Protection of Investment and the Agreement for the Avoidance of Double Taxation with Kazakhstan. Cooperation can be further strengthened by opening negotiations of Agreement on Development Cooperation and Agreement Regarding Mutual Assistance in Customs Matters. Slovenia has already signed all the important bilateral agreements fostering trade and economic cooperation with the remaining three countries, namely Moldova, Turkey, and Ukraine.

In the period concerned, Slovenian exports increased to all of the countries, average growth rates were all positive. The highest average growth rates for the period from 2005 to 2011 were recorded with Albania (13.15%), Kazakhstan (7.44%), Ukraine (7.08%), Turkey (6.31%) and Moldova (5.72%). These data show that Slovenian companies have partially redirected their exports from traditional Western Balkan markets (the countries of ex Yugoslavia) to new markets, and growth rates are higher due to low base. Finding new markets was predominantly the result of the global economic crisis and its aftermaths both in Slovenia and in Western Balkans, however, at the same time, Slovenian companies are trying to increase their exports by finding new opportunities. Western Balkan countries will remain important trade partners and exports are still increasing albeit at lower growth rates. Slovenian imports increased as well, except from Albania (-16.63% on average in the period concerned), Kazakhstan (-8.27%), and Kosovo (-8.17%). Average growth rates for imports were the highest in the cases of Serbia (11.80%), Bosnia and Herzegovina (10.47%), Montenegro (6.84%), and Turkey (6.39%). Slovenia had large surpluses with all of the countries under consideration, except with Turkey in certain years. The structure of Slovenian exports with the ten countries was very stable throughout the period concerned, and the same, although to a lesser extent, can be said for the structure of imports.

Trade in recipient countries has been influenced more by other forms of economic cooperation, such as direct investment. The majority of Slovenian direct investment abroad is directed to Western Balkan countries. The share of Slovenian direct investment to four countries, Serbia, Bosnia, Macedonia, and Montenegro, in total investment abroad was 42.7% on 31 December 2011. Slovenia is one of the top foreign investors in these countries. Slovenian direct investments help to strengthen export base in these countries which in turn leads to an increased export. All of these countries are export oriented. Slovenian direct investment has helped them to diversify their export structure and to produce more value-added products. In this way their exports can be more competitive on the markets of EU, where most of exports are directed (more than 50%). The benefits are mutual – through their subsidiaries Slovenian companies have access to third markets on better terms (free trade agreements with non EU countries). Slovenia is also important in construction of infrastructure (road, energy, communication) in Western Balkan countries, either through direct investment or through official development aid.

Despite the fact that the trade regimes of the ten countries analyzed are very liberal (the least liberal of them being Ukraine), there are still some problems that impede bilateral trade. Some of the common problems that to a larger or lesser extent exist in all of the countries considered are: widespread corruption and interference of politics into economy; political instability; inconsistency in macroeconomic policy; counterfeiting and smuggling of goods; poor payment discipline and late payments of goods, which have increased because of higher insolvency and illiquidity among companies as a consequence of the economic crisis (payments are late up to a year in some countries); unfair competition; non-transparent land registers; poor enforcement of the rule of law; court backlogs; non-transparent customs procedures; non-transparent certification processes; non-tariff barriers (delays at borders, arbitrary fixing of import prices by customs officers, etc.); non-transparent public tender procedures; complicated and costly administrative procedures that deter investors; and widespread grey economy.

It is expected that Slovenia's bilateral trade with the ten countries considered will continue to grow in the medium-term, albeit by lower growth rates. At the same time however, the importance of other forms of bilateral cooperation, such as direct investments, development cooperation, cooperation between companies and joint actions on third markets, will increase faster. This will in turn increase the international trade of the countries analyzed. The role of the Slovenian government in terms of providing support for the enterprise sector is crucial. These are all countries where it is important to maintain good political relations with in order to be able to significantly expand business cooperation. In addition, Slovenia should continue to support trade policies of the countries considered and their accession or cooperation with the EU and the WTO. Furthermore, Slovenian companies would benefit from a more profound cooperation among themselves and from an organized joint presentation in foreign markets. There are many sectors in these countries that will potentially record high growth rates in the coming years, two of them being energy and ecology (renewable sources of energy, waste treatment plants, etc.).

As we mentioned before the role of the Slovenian government institutions in terms of providing support for the enterprise sector will be crucial as well as more profound cooperation among different governmental actors. Development assistance and trade relations are two different areas which are covered by different governmental institutions, so we had problems with getting fulfilled questionnaires, because they are either experts in development assistance or trade regimes, but not necessarily both. Similar situation was with the enterprise sector. Mostly they weren't interested in participating in the survey. The companies which participated pointed out that they have well established trade relations with recipient countries, but being from EU member state means clear advantage, moreover the advantages are mainly in the countries that use euro as their currency, which substantially reduces the risks of exchange rate risks. They also defined the applied trade regime with recipient countries as favorable, only one company thinks that there should be done more. Interesting is that when it comes to problems concerning bilateral trade relations some companies don't have problems at all, some have problems with custom procedures and some don't have problems as such, however due to distanced locations the transportation and logistics costs are quite high which reduces the competitive position of their products, especially against the local producers. When it comes to non-tariff barriers the most substantial are foreign exchange restriction and foreign exchange control. They mentioned also that would be a huge advantage if the necessary licenses and certificates in recipient countries would be in accordance with European legislation and standards which would definitely simplify some procedures and reduce their costs. They also think that there are some positive changes on bilateral trade turnover after Slovenia's EU membership like simplification of trading procedures; due to the single currency area it is easier to make business; the reduction of exchange rate risks and implementation of uniform legislation and standards for products in the EU. It is worrying that companies do not know the forms of public-private partnerships initiated on the occasion of aid for trade and they also do not know innovative financial mechanisms for the mobilization of private finances for shared development goals. There should be done more when raising publicity on development issues, especially when discussing about innovative financing and private-public partnerships. MFA and Ministry of Economy should have more public awareness campaigns and public discussions which will also help motivate private sector and give them the opportunity to express their concerns and also offer their knowledge and expertise's. It is necessary to strengthen the political and economic situation in the region and resolve the outstanding questions which have derived from the former Yugoslavia. Some countries, such as Austria, Germany and Turkey etc. have already overtaken us in strengthening this position what make Slovenian companies even less competitive. There are a lot of unresolved issues, which are here despite of understanding the language, the culture, traditions and knowing potential obstacles in business, especially in Western Balkans. One of the companies also suggested that the embassy should hire only people (especially economic representatives) with long-lasting experience in business and not a novice, because companies are looking for any help they can get and novices can't really help them. Moreover, with good advices and help they will be able to integrate in the world trading system more successfully.

If we sum up, Slovenian companies have well established trade relations with recipient countries, but according to their opinion the development actors (MFA, Ministry of Economy, Chamber of Commerce and Industry and all the interested companies) should strengthen their cooperation mostly through transparent and inclusive dialogues and find new ways to combine their interests, capacities and efforts in order to contribute to fostering of Slovenian enterprise sector and also helping economically less developed countries.

APPENDIX

Table 1. Parameters defining countries to be subject of the analysis

Country	*Priority countries*	*Presence of NGOs*	*Slovenian embassy*	*Number of companies*	*DAC List of ODA recipients (OECD)*
SERBIA	✓	✓	✓	1675	Upper Middle Income Countries and Territories
BOSNIA AND HERZEGOVINA	✓	✓	✓	1791	Upper Middle Income Countries and Territories
TURKEY	X	✓	✓	260	Upper Middle Income Countries and Territories
UKRAINE	✓	✓	✓	233	Lower Middle Income Countries and Territories
MACEDONIA	✓	✓	✓	947	Upper Middle Income Countries and Territories
ALBANIA	✓	✓	✓	191	Upper Middle Income Countries and Territories
KOSOVO	✓	✓	✓	452	Lower Middle Income Countries and Territories
MONTENEGRO	✓	✓	✓	633	Upper Middle Income Countries and Territories
IRAN	X	X	X	107	Upper Middle Income Countries and Territories
KAZAKHSTAN	X	X	X	77	Upper Middle Income Countries and Territories
MOLDOVA	✓	✓	✓	67	Lower Middle Income Countries and Territories
UZBEKISTAN	X	X	X	28	Lower Middle Income Countries and Territories